incurred in connection with the promotion, sale and distribution of the Existing Contracts. The CDSC is equal to the percentage of each purchase payment surrendered or withdrawn as shown in the table below. The CDSC is separately calculated and applied to each purchase payment at the time that the payment is surrendered or withdrawn. For purposes of calculating the CDSC, earnings are considered withdrawn before purchase payments and purchase payments are considered withdrawn or a first-in-first-out basis.

Surrender charge as a percentage of purchase pay- ment withdrawn
7 6 5
4
3
2
0

- 13. Proceeds from CDSC may not cover the expected costs of distributing the Contracts. Any shortfall will be paid for from Southland's general assets, which may include revenue from the mortality and expense risk charge, described below.
- 14. Southland will assess the following charges ("Administrative Charges''): (i) during the accumulation period only, an annual charge of \$30 per contract year from each Existing Contract, if total purchase payments paid in the first contract year are less than \$100,000; and (ii) during both the accumulation and annuity periods, a charge which is equal, on an annual effective basis, to 0.15% of the average daily net asset value of each Existing Contract. Southland guarantees that it will not raise Administrative Charges for the duration of the Existing Contracts. Southland also represents that it does not expect that the total revenues from the Administrative Charges will be greater than the total expected cost of administering the Existing Contracts on average, excluding costs that are categorized properly as distribution expenses.
- 15. Southland assumes mortality risks under the Existing Contracts because they: (i) impose a contractual obligation to pay a death benefit if an annuitant dies prior to the annuity date; (ii) do not impose any CDSC on the death benefit; (iii) impose a contractual obligation to make annuity payments for the entire life of the annuitant under annuity options involving life contingencies; and (iv) contain annuity tables that

Southland guarantees for the duration of the contract. Southland also assumes the risk that annuitants as a group will live longer than its annuity tables predict, which would require Southland to pay more in annuity payments than it anticipated.

16. Southland also assumes expense risks under the Existing Contracts because the administrative charges under outstanding Existing Contracts, which cannot be raised, may be insufficient to cover the actual administrative expenses attributable to the Existing Contracts. Administrative expenses include principally the costs of the following: processing purchase payments, annuity payments, surrenders and transfers; furnishing confirmation notices and periodic reports; calculating mortality and expense charges; preparing voting materials and tax reports; updating registration statements; actuarial and other expenses; initially devoting a data processing system to administer the Existing Contracts; ongoing operating expenses of such a system in connection with performing the foregoing functions; and fees paid to outside administrators for additional data processing services.

17. As compensation for assuming the basic mortality and expense risks, Southland will assess, during the accumulation period and the annuity period, a daily charge for mortality and expense risks at an annual effective rate of 1.25% of the net asset value of the Account ("Mortality and Expense Risk Charge"). Of this amount, approximately 0.90% is attributable to mortality risks, and approximately 0.35% to expense risks.

18. As compensation for providing the Enhanced Death Benefit, during the accumulation period but not during the annuity period, Southland will assess a daily charge at an annual effective rate of 0.12% of the net asset value of the Account ("Enhanced Death Benefit Charge").

19. Southland guarantees that it will not increase the amount of mortality and Expense Risk Charge or the Enhanced Death Benefit Charge for any Contract once that Contract is issued. If the Mortality and Expense Risk Charge and Enhanced Death Benefit Charge are insufficient to cover the expenses and costs, the loss will be borne by Southland Conversely, if the amounts deducted prove more than sufficient, the excess will be profit to Southland. Southland expects to earn a profit from the Mortality and Expense Risk Charge and the Enhanced Death Benefit Charge. To the extent that the CDSC is insufficient to cover the actual costs of distribution, the expenses will be paid

from Southland's general account assets, which will include profit, if any, derived from the mortality and expense risk charge.

Applicants' Legal Analysis and Conditions

1. Pursuant to Section 6(c) of the 1940 Act, the Commission may exempt any person, security, or transaction, or any class or classes of persons, securities or transactions, from any provision or provisions of the 1940 Act or from any rule or regulation thereunder, if and to the extent that such exemption is necessary or appropriate in the public interest and consistent with the protection of investors and the purposes fairly intended by the policy and provisions of the 1940 Act.

2. Sections 26(a)(2)(C) and 27(c)(2) of the 1940 Act prohibit a registered unit investment trust and any depositor thereof or underwriter therefor from selling periodic payment plan certificates unless the proceeds of all payments (other than sales load) are deposited with a qualified bank as trustee or custodian and held under arrangements which prohibit any payment to the depositor or principal underwriter except a fee, not exceeding such reasonable amount as the Commission may prescribe, for performing bookkeeping and other administrative services normally performed by the bank itself.

3. Applicants request an order pursuant to Section 6(c) of the 1940 Act exempting them from Sections 26(a)(2)(C) and 27(c)(2) of the 1940 Act to the extent necessary to permit the deduction of the Mortality and Expense Risk Charge and the Enhanced Death Benefit Charge from the assets of the Account and any Future Accounts in connection with the Contracts.

4. Applicants assert that the Mortality and Expense Risk Charge of 1.25% is reasonable in relation to the risks assumed by Southland under the Existing Contracts and reasonable in amount as determined by industry practice with respect to comparable annuity products. Applicants state that these determinations are based upon an analysis of publicly available information about similar industry products, and by taking into consideration such factors as current charge levels and benefits provided, the existence of charge guarantees and guaranteed annuity rates. Southland undertakes to maintain at its home office a memorandum, available to the Commission and its staff upon request, setting forth in detail the methodology used in making the foregoing determinations.