

SENATE BILL 763

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2000 Regular Session
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By: **Senator Bromwell**

Introduced and read first time: February 4, 2000

Assigned to: Finance

A BILL ENTITLED

1 AN ACT concerning

2 **Life Insurers - Classes of Reserve Investments**

3 FOR the purpose of altering the classes of reserve investments for life insurers;
4 defining certain terms; and generally relating to investments of life insurers.

5 BY repealing and reenacting, with amendments,
6 Article - Insurance
7 Section 5-509 and 5-511
8 Annotated Code of Maryland
9 (1997 Volume and 1999 Supplement)

10 SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF
11 MARYLAND, That the Laws of Maryland read as follows:

12 **Article - Insurance**

13 5-509.

14 (A) THE APPLICABLE DEFINITIONS OF § 5-511 OF THIS SUBTITLE APPLY TO
15 THIS SECTION.

16 [(a)] (B) This section does not apply to Canadian securities and investments
17 that are eligible for investment under other provisions of this subtitle.

18 [(b)] (C) Subject to the limitations of § 5-511 of this subtitle, a life insurer may
19 acquire foreign investments, or engage in investment practices with persons of or in
20 foreign jurisdictions, of substantially the same types as those that a life insurer is
21 allowed to acquire under this subtitle, other than those of the type prohibited under §
22 5-506 of this subtitle if, as a result of and after giving effect to the investment:

23 (1) the aggregate amount of foreign investments then held by the life
24 insurer under this subsection does not exceed 20% of its admitted assets; and

25 (2) the aggregate amount of foreign investments then held by the life
26 insurer under this subsection in a single foreign jurisdiction does not exceed:

1 (i) 10% of its admitted assets for a foreign jurisdiction that has a
2 sovereign debt rating of investment grade or higher by a nationally recognized
3 statistical rating organization; or

4 (ii) 3% of its admitted assets for any other foreign jurisdiction.

5 [(c)] (D) (1) Subject to the limitations of § 5-511 of this subtitle, a life
6 insurer may acquire investments or engage in investment practices denominated in
7 foreign currencies, whether or not they are foreign investments acquired under
8 subsection [(b)] (C) of this section, or additional foreign currency exposure as a result
9 of the termination or expiration of a hedging transaction with respect to investments
10 denominated in a foreign currency, if:

11 (i) the aggregate amount of investments then held by the life
12 insurer under this subsection denominated in foreign currencies does not exceed 10%
13 of its admitted assets; and

14 (ii) the aggregate amount of investments then held by the life
15 insurer under this subsection denominated in the foreign currency of a single foreign
16 jurisdiction does not exceed:

17 1. 10% of its admitted assets for a foreign jurisdiction that
18 has a sovereign debt rating of investment grade or higher by a nationally recognized
19 statistical rating organization; or

20 2. 3% of its admitted assets for any other foreign jurisdiction.

21 (2) Notwithstanding paragraph (1) of this subsection, an investment is
22 not considered denominated in foreign currency if the acquiring insurer enters into
23 one or more contracts in derivative transactions and the business entity counterparty
24 agrees under the contract or contracts to exchange all payments made on the foreign
25 currency denominated investment for United States currency at a rate that effectively
26 insulates the investment cash flows against future changes in currency exchange
27 rates during the period the contract or contracts are in effect.

28 [(d)] (E) (1) In addition to investments allowed under subsections [(b) and
29 (c)] (C) AND (D) of this section, a life insurer that is authorized to do business in a
30 foreign jurisdiction, and that has outstanding insurance, annuity, or reinsurance
31 contracts on lives or risks resident or located in that foreign jurisdiction and
32 denominated in the foreign currency of that jurisdiction, may acquire foreign
33 investments with respect to that foreign jurisdiction, and may acquire investments
34 denominated in the currency of that jurisdiction, subject to the limitations of § 5-511
35 of this subtitle.

36 (2) Notwithstanding paragraph (1) of this subsection, investments made
37 under this subsection in obligations of foreign governments, their political
38 subdivisions, and government sponsored enterprises are not subject to the limitations
39 of § 5-511 of this subtitle if those investments carry a rating of investment grade or
40 higher by a nationally recognized statistical rating organization.

1 (3) The aggregate amount of investments acquired by the life insurer
2 under this subsection may not exceed the greater of:

3 (i) the amount that the life insurer is required by the law of the
4 foreign jurisdiction to invest in the foreign jurisdiction; and

5 (ii) 115% of the amount of its reserves, net of reinsurance, and other
6 obligations under the contracts on lives or risks resident or located in the foreign
7 jurisdiction.

8 [(e)] (F) (1) In addition to investments allowed under subsections [(b) and
9 (c)] (C) AND (D) of this section, a life insurer that is not authorized to do business in a
10 foreign jurisdiction, but which has outstanding insurance, annuity, or reinsurance
11 contracts on lives or risks resident or located in that foreign jurisdiction and
12 denominated in the foreign currency of that jurisdiction, may acquire foreign
13 investments with respect to that foreign jurisdiction, and may acquire investments
14 denominated in the currency of that jurisdiction, subject to the limitations of § 5-511
15 of this subtitle.

16 (2) Notwithstanding paragraph (1) of this subsection, investments made
17 under this subsection in obligations of foreign governments, their political
18 subdivisions, and government sponsored enterprises are not subject to the limitations
19 of § 5-511 of this subtitle if those investments carry a rating of investment grade or
20 higher by a nationally recognized statistical rating organization.

21 (3) The aggregate amount of investments acquired by the life insurer
22 under this subsection may not exceed 105% of the amount of its reserves, net of
23 reinsurance, and other obligations under the contracts on lives or risks resident or
24 located in the foreign jurisdiction.

25 [(f)] (G) (1) Investments acquired under this section shall be aggregated
26 with investments of the same type made under all other provisions of this subtitle,
27 and in a similar manner, for purposes of determining compliance with the limitations,
28 if any, contained in the other provisions of this subtitle.

29 (2) Investments in obligations of foreign governments, their political
30 subdivisions, and government sponsored enterprises, except for those exempted under
31 subsections [(d) and (e)] (E) AND (F) of this section, are subject to the limitations of §
32 5-511 of this subtitle.

33 5-511.

34 (A) (1) IN THIS SECTION THE FOLLOWING WORDS HAVE THE MEANINGS
35 INDICATED.

36 (2) (I) "ASSET-BACKED SECURITY" MEANS A SECURITY OR OTHER
37 INSTRUMENT, EXCLUDING A MUTUAL FUND, EVIDENCING AN INTEREST IN, OR THE
38 RIGHT TO RECEIVE PAYMENTS FROM, OR PAYABLE FROM DISTRIBUTIONS ON, AN
39 ASSET, A POOL OF ASSETS, OR SPECIFICALLY DIVISIBLE CASH FLOWS THAT ARE

1 LEGALLY TRANSFERRED TO A TRUST OR ANOTHER SPECIAL PURPOSE
2 BANKRUPTCY-REMOTE BUSINESS ENTITY, ON THE FOLLOWING CONDITIONS:

3 1. THE TRUST OR OTHER BUSINESS ENTITY IS ESTABLISHED
4 SOLELY FOR THE PURPOSE OF ACQUIRING SPECIFIC TYPES OF ASSETS OR RIGHTS TO
5 CASH FLOWS, ISSUING SECURITIES AND OTHER INSTRUMENTS REPRESENTING AN
6 INTEREST IN OR RIGHT TO RECEIVE CASH FLOWS FROM THOSE ASSETS OR RIGHTS,
7 AND ENGAGING IN ACTIVITIES REQUIRED TO SERVICE THE ASSETS OR RIGHTS AND
8 ANY CREDIT ENHANCEMENT OR SUPPORT FEATURES HELD BY THE TRUST OR OTHER
9 BUSINESS ENTITY; AND

10 2. THE ASSETS OF THE TRUST OR OTHER BUSINESS ENTITY
11 CONSIST SOLELY OF INTEREST BEARING OBLIGATIONS OR OTHER CONTRACTUAL
12 OBLIGATIONS REPRESENTING THE RIGHT TO RECEIVE PAYMENT FROM THE CASH
13 FLOWS FROM THE ASSETS OR RIGHTS.

14 (II) HOWEVER, THE EXISTENCE OF CREDIT ENHANCEMENTS, SUCH
15 AS LETTERS OF CREDIT OR GUARANTEES, OR SUPPORT FEATURES SUCH AS SWAP
16 AGREEMENTS, DO NOT CAUSE A SECURITY OR OTHER INSTRUMENT TO BE
17 INELIGIBLE AS AN ASSET-BACKED SECURITY.

18 (3) "BUSINESS ENTITY" INCLUDES A SOLE PROPRIETORSHIP,
19 CORPORATION, ASSOCIATION, GENERAL OR LIMITED PARTNERSHIP, LIMITED
20 LIABILITY COMPANY, JOINT-STOCK COMPANY, JOINT VENTURE, TRUST, OR ANY
21 OTHER FORM OF BUSINESS ORGANIZATION, WHETHER FOR PROFIT OR NOT FOR
22 PROFIT.

23 (4) (I) "COUNTERPARTY EXPOSURE AMOUNT" MEANS:

24 1. FOR AN OVER-THE-COUNTER DERIVATIVE INSTRUMENT
25 NOT ENTERED INTO PURSUANT TO A WRITTEN MASTER AGREEMENT THAT PROVIDES
26 FOR NETTING OF PAYMENTS OWED BY THE RESPECTIVE PARTIES:

27 A. THE MARKET VALUE OF THE OVER-THE-COUNTER
28 DERIVATIVE INSTRUMENT IF THE LIQUIDATION OF THE DERIVATIVE INSTRUMENT
29 WOULD RESULT IN A FINAL CASH PAYMENT TO THE INSURER; OR

30 B. ZERO IF THE LIQUIDATION OF THE DERIVATIVE
31 INSTRUMENT WOULD NOT RESULT IN A FINAL CASH PAYMENT TO THE INSURER;

32 2. FOR OVER-THE-COUNTER DERIVATIVE INSTRUMENTS
33 ENTERED INTO PURSUANT TO A WRITTEN MASTER AGREEMENT THAT PROVIDES FOR
34 NETTING OF PAYMENTS OWED BY THE RESPECTIVE PARTIES, AND THE DOMICILIARY
35 JURISDICTION OF THE COUNTERPARTY IS EITHER WITHIN THE UNITED STATES OR,
36 IF NOT WITHIN THE UNITED STATES, IS WITHIN A FOREIGN (NOT UNITED STATES)
37 JURISDICTION LISTED IN THE PURPOSES AND PROCEDURES MANUAL OF THE
38 SECURITIES VALUATION OFFICE AS ELIGIBLE FOR NETTING, THE GREATER OF ZERO
39 OR THE NET SUM PAYABLE TO THE INSURER IN CONNECTION WITH ALL DERIVATIVE
40 INSTRUMENTS SUBJECT TO THE WRITTEN MASTER AGREEMENT UPON THEIR
41 LIQUIDATION IN THE EVENT OF DEFAULT BY THE COUNTERPARTY PURSUANT TO

1 THE MASTER AGREEMENT (ASSUMING NO CONDITIONS PRECEDENT TO THE
2 OBLIGATIONS OF THE COUNTERPARTY TO MAKE SUCH A PAYMENT AND ASSUMING
3 NO SETOFF OF AMOUNTS PAYABLE PURSUANT TO ANY OTHER INSTRUMENT OR
4 AGREEMENT).

5 (II) FOR PURPOSES OF THIS PARAGRAPH, MARKET VALUE OR THE
6 NET SUM PAYABLE, AS THE CASE MAY BE, SHALL BE DETERMINED AT THE END OF
7 THE MOST RECENT QUARTER OF THE INSURER'S FISCAL YEAR AND SHALL BE
8 REDUCED BY THE MARKET VALUE OF ACCEPTABLE COLLATERAL HELD BY THE
9 INSURER OR A CUSTODIAN ON THE INSURER'S BEHALF.

10 (5) (I) "DERIVATIVE INSTRUMENT" MEANS AN AGREEMENT, OPTION,
11 INSTRUMENT, OR A SERIES OR COMBINATION THEREOF:

12 1. TO MAKE OR TAKE DELIVERY OF, OR ASSUME OR
13 RELINQUISH, A SPECIFIED AMOUNT OF ONE OR MORE UNDERLYING INTERESTS, OR
14 TO MAKE A CASH SETTLEMENT IN LIEU THEREOF; OR

15 2. THAT HAS A PRICE, PERFORMANCE, VALUE, OR CASH
16 FLOW BASED PRIMARILY UPON THE ACTUAL OR EXPECTED PRICE, LEVEL,
17 PERFORMANCE, VALUE, OR CASH FLOW OF ONE OR MORE UNDERLYING INTERESTS.

18 (II) "DERIVATIVE INSTRUMENT" INCLUDES OPTIONS, WARRANTS
19 USED IN A HEDGING TRANSACTION AND NOT ATTACHED TO ANOTHER FINANCIAL
20 INSTRUMENT, CAPS, FLOORS, COLLARS, SWAPS, FORWARDS, FUTURES, AND ANY
21 OTHER AGREEMENTS, OPTIONS, OR INSTRUMENTS SUBSTANTIALLY SIMILAR
22 THERETO OR ANY SERIES OR COMBINATION THEREOF AND ANY AGREEMENTS,
23 OPTIONS, OR INSTRUMENTS PERMITTED UNDER REGULATIONS ADOPTED UNDER
24 THIS SECTION.

25 (III) "DERIVATIVE INSTRUMENT" DOES NOT INCLUDE
26 COLLATERALIZED MORTGAGE OBLIGATIONS, OTHER ASSET-BACKED SECURITIES,
27 PRINCIPAL-PROTECTED STRUCTURED SECURITIES, FLOATING RATE SECURITIES, OR
28 INSTRUMENTS THAT AN INSURER IS OTHERWISE PERMITTED TO INVEST IN OR
29 RECEIVE UNDER THIS ARTICLE OTHER THAN UNDER THIS SUBSECTION, AND ANY
30 DEBT OBLIGATIONS OF THE INSURER.

31 (6) "DERIVATIVE TRANSACTION" MEANS A TRANSACTION INVOLVING
32 THE USE OF ONE OR MORE DERIVATIVE INSTRUMENTS.

33 (7) "DOLLAR ROLL TRANSACTION" MEANS TWO SIMULTANEOUS
34 TRANSACTIONS WITH DIFFERENT SETTLEMENT DATES NO MORE THAN 96 DAYS
35 APART, SO THAT IN THE TRANSACTION WITH THE EARLIER SETTLEMENT DATE, AN
36 INSURER SELLS TO A BUSINESS ENTITY, AND IN THE OTHER TRANSACTION THE
37 INSURER IS OBLIGATED TO PURCHASE FROM THE SAME BUSINESS ENTITY,
38 SUBSTANTIALLY SIMILAR SECURITIES OF THE FOLLOWING TYPES:

39 (I) ASSET-BACKED SECURITIES ISSUED, ASSUMED OR
40 GUARANTEED BY THE GOVERNMENT NATIONAL MORTGAGE ASSOCIATION, THE

1 FEDERAL NATIONAL MORTGAGE ASSOCIATION, OR THE FEDERAL HOME LOAN
2 MORTGAGE CORPORATION OR THEIR RESPECTIVE SUCCESSORS; AND

3 (II) OTHER ASSET-BACKED SECURITIES REFERRED TO IN SECTION
4 106 OF TITLE I OF THE SECONDARY MORTGAGE MARKET ENHANCEMENT ACT OF 1984
5 (15 U.S.C., § 77R-1), AS AMENDED.

6 (8) "DOMESTIC JURISDICTION" MEANS THE UNITED STATES, CANADA, A
7 STATE, A PROVINCE OF CANADA, OR A POLITICAL SUBDIVISION OF THE UNITED
8 STATES, CANADA, A STATE, OR A PROVINCE OF CANADA.

9 (9) "EQUITY INTEREST" MEANS ANY OF THE FOLLOWING:

10 (I) COMMON STOCK;

11 (II) PREFERRED STOCK;

12 (III) TRUST CERTIFICATE;

13 (IV) EQUITY INVESTMENT IN AN INVESTMENT COMPANY OTHER
14 THAN A MONEY MARKET MUTUAL FUND QUALIFYING UNDER SUBSECTION (P) OF
15 THIS SECTION;

16 (V) INVESTMENT IN A COMMON TRUST FUND OF A BANK
17 REGULATED BY A FEDERAL OR STATE AGENCY;

18 (VI) AN OWNERSHIP INTEREST IN MINERALS, OIL, OR GAS, THE
19 RIGHTS TO WHICH HAVE BEEN SEPARATED FROM THE UNDERLYING FEE INTEREST
20 IN THE REAL ESTATE WHERE THE MINERALS, OIL, OR GAS ARE LOCATED;

21 (VII) INSTRUMENTS THAT ARE MANDATORILY, OR AT THE OPTION OF
22 THE ISSUER, CONVERTIBLE TO EQUITY;

23 (VIII) LIMITED PARTNERSHIP INTERESTS;

24 (IX) MEMBER INTERESTS IN LIMITED LIABILITY COMPANIES;

25 (X) WARRANTS OR OTHER RIGHTS TO ACQUIRE EQUITY INTERESTS
26 THAT ARE CREATED BY THE PERSON THAT OWNS OR WOULD ISSUE THE EQUITY TO
27 BE ACQUIRED; OR

28 (XI) A SECURITY THAT HAS A PAR VALUE AND WHOSE TERMS
29 PROVIDE THAT THE ISSUER'S NET OBLIGATION TO REPAY ALL OR PART OF THE
30 SECURITY'S PAR VALUE IS DETERMINED BY REFERENCE TO THE PERFORMANCE OF
31 AN EQUITY, A COMMODITY, A FOREIGN CURRENCY OR AN INDEX OF EQUITIES,
32 COMMODITIES, FOREIGN CURRENCIES OR COMBINATIONS THEREOF.

33 (10) "FOREIGN CURRENCY" MEANS A CURRENCY OTHER THAN THAT OF A
34 DOMESTIC JURISDICTION.

1 (11) (I) "FOREIGN INVESTMENT" MEANS AN INVESTMENT IN A
2 FOREIGN JURISDICTION, OR AN INVESTMENT IN A PERSON, REAL ESTATE, OR ASSET
3 DOMICILED IN A FOREIGN JURISDICTION, THAT IS SUBSTANTIALLY OF THE SAME
4 TYPE AS THOSE ELIGIBLE FOR INVESTMENT UNDER THIS SECTION.

5 (II) AN INVESTMENT MAY NOT BE DEEMED TO BE FOREIGN IF THE
6 ISSUING PERSON, QUALIFIED PRIMARY CREDIT SOURCE, OR QUALIFIED GUARANTOR
7 IS A DOMESTIC JURISDICTION OR A PERSON DOMICILED IN A DOMESTIC
8 JURISDICTION, UNLESS:

9 1. THE ISSUING PERSON IS A SHELL BUSINESS ENTITY; AND

10 2. THE INVESTMENT IS NOT ASSUMED, ACCEPTED,
11 GUARANTEED, OR INSURED OR OTHERWISE BACKED BY A DOMESTIC JURISDICTION
12 OR A PERSON, THAT IS NOT A SHELL BUSINESS ENTITY, DOMICILED IN A DOMESTIC
13 JURISDICTION.

14 (12) "FOREIGN JURISDICTION" MEANS A JURISDICTION OTHER THAN A
15 DOMESTIC JURISDICTION.

16 (13) "HEDGING TRANSACTION" MEANS A DERIVATIVE TRANSACTION
17 THAT IS ENTERED INTO AND MAINTAINED TO REDUCE:

18 (I) THE RISK OF A CHANGE IN THE VALUE, YIELD, PRICE, CASH
19 FLOW, OR QUANTITY OF ASSETS OR LIABILITIES THAT THE INSURER HAS ACQUIRED
20 OR INCURRED OR ANTICIPATES ACQUIRING OR INCURRING; OR

21 (II) THE CURRENCY EXCHANGE RATE RISK OR THE DEGREE OF
22 EXPOSURE AS TO ASSETS OR LIABILITIES THAT AN INSURER HAS ACQUIRED OR
23 INCURRED OR ANTICIPATES ACQUIRING OR INCURRING.

24 (14) "OBLIGATION" MEANS A BOND, NOTE, DEBENTURE, ASSET-BACKED
25 SECURITIES, TRUST CERTIFICATE, INCLUDING AN EQUIPMENT CERTIFICATE,
26 PRODUCTION PAYMENT, NEGOTIABLE BANK CERTIFICATE OF DEPOSIT, BANDERS'
27 ACCEPTANCE, CREDIT TENANT LOAN, LOAN SECURED BY FINANCING NET LEASES
28 AND OTHER EVIDENCE OF INDEBTEDNESS FOR THE PAYMENT OF MONEY (OR
29 PARTICIPATIONS, CERTIFICATES, OR OTHER EVIDENCES OF AN INTEREST IN ANY OF
30 THE FOREGOING), WHETHER CONSTITUTING A GENERAL OBLIGATION OF THE
31 ISSUER OR PAYABLE ONLY OUT OF CERTAIN REVENUES OR CERTAIN FUNDS
32 PLEDGED OR OTHERWISE DEDICATED FOR PAYMENT.

33 (15) "QUALIFIED GUARANTOR" MEANS A GUARANTOR AGAINST WHICH
34 AN INSURER HAS A DIRECT CLAIM FOR FULL AND TIMELY PAYMENT, EVIDENCED BY
35 A CONTRACTUAL RIGHT FOR WHICH AN ENFORCEMENT ACTION CAN BE BROUGHT IN
36 A DOMESTIC JURISDICTION.

37 (16) "QUALIFIED PRIMARY CREDIT SOURCE" MEANS THE CREDIT SOURCE
38 TO WHICH AN INSURER LOOKS FOR PAYMENT AS TO AN INVESTMENT AND AGAINST
39 WHICH AN INSURER HAS A DIRECT CLAIM FOR FULL AND TIMELY PAYMENT,

1 EVIDENCED BY A CONTRACTUAL RIGHT FOR WHICH AN ENFORCEMENT ACTION CAN
2 BE BROUGHT IN A DOMESTIC JURISDICTION.

3 (17) (I) "REPLICATION TRANSACTION" MEANS A DERIVATIVE
4 TRANSACTION THAT IS INTENDED TO REPLICATE THE PERFORMANCE OF ONE OR
5 MORE ASSETS THAT AN INSURER IS AUTHORIZED TO ACQUIRE UNDER THIS SECTION.

6 (II) A DERIVATIVE TRANSACTION THAT IS ENTERED INTO AS A
7 HEDGING TRANSACTION MAY NOT BE CONSIDERED A REPLICATION TRANSACTION.

8 (18) "REPURCHASE TRANSACTION" MEANS A TRANSACTION IN WHICH AN
9 INSURER PURCHASES SECURITIES FROM A BUSINESS ENTITY THAT IS OBLIGATED TO
10 REPURCHASE THE PURCHASED SECURITIES OR EQUIVALENT SECURITIES FROM THE
11 BUSINESS ENTITY AT A SPECIFIED PRICE, EITHER WITHIN A SPECIFIED PERIOD OF
12 TIME OR ON DEMAND.

13 (19) "REVERSE REPURCHASE TRANSACTION" MEANS A TRANSACTION IN
14 WHICH AN INSURER SELLS SECURITIES TO A BUSINESS ENTITY AND IS OBLIGATED
15 TO REPURCHASE THE SOLD SECURITIES OR EQUIVALENT SECURITIES FROM THE
16 BUSINESS ENTITY AT A SPECIFIED PRICE, EITHER WITHIN A SPECIFIED PERIOD OF
17 TIME OR ON DEMAND.

18 (20) "SECURITIES LENDING TRANSACTION" MEANS A TRANSACTION IN
19 WHICH SECURITIES ARE LOANED BY AN INSURER TO A BUSINESS ENTITY THAT IS
20 OBLIGATED TO RETURN THE LOANED SECURITIES OR EQUIVALENT SECURITIES TO
21 THE INSURER, EITHER WITHIN A SPECIFIED PERIOD OF TIME OR ON DEMAND.

22 (21) "SHELL BUSINESS ENTITY" MEANS A BUSINESS ENTITY HAVING NO
23 ECONOMIC SUBSTANCE, EXCEPT AS A VEHICLE FOR OWNING INTERESTS IN ASSETS
24 ISSUED, OWNED, OR PREVIOUSLY OWNED BY A PERSON DOMICILED IN A FOREIGN
25 JURISDICTION.

26 [(a)] (A-1) Each life insurer shall have and continually maintain an amount
27 equal to its entire reserves, as required by this article, in any combination of the types
28 of assets authorized by subsections [(c) through (l)] (C) THROUGH (P) of this section
29 subject to the limit, if any, set for each type or class of investment.

30 (b) (1) For purposes of this section, the entire reserves of a life insurer is the
31 sum of the amounts listed in paragraph (2) of this subsection less the amount of net
32 uncollected and deferred premiums.

33 (2) The sum to be used in paragraph (1) of this subsection consists of:

34 (i) the net present value of all outstanding policies in force, less
35 reinsurance;

36 (ii) reserves for accidental death benefits and total and permanent
37 disability benefits, less reinsurance;

1 (iii) the present value of supplementary contracts, including
2 dividends left with the life insurer to accumulate at interest;

3 (iv) liabilities on canceled policies that are not included in net
4 reserve and on which a surrender value may be demanded, and outstanding policy
5 claims and losses; and

6 (v) any additional reserves that the Commissioner reasonably
7 requires for the life insurance.

8 (c) The reserve investments of a life insurer may include:

9 (1) cash or deposits in checking or savings accounts, under certificates of
10 deposit, or in any other form in a national or State bank or trust company; or

11 (2) shares or deposits in a savings and loan association or building and
12 loan association to the extent that the investment or account is insured by the Federal
13 Deposit Insurance Corporation.

14 (d) (1) The reserve investments of a life insurer may include:

15 (i) interest bearing bonds, notes, certificates of indebtedness, bills,
16 or other direct interest bearing obligations of the United States or Canada or other
17 interest bearing obligations fully guaranteed both as to principal and interest by the
18 United States or Canada;

19 (ii) interest bearing bonds of a state, a province of Canada, a county
20 or incorporated city of a state, or a municipality of Canada;

21 (iii) interest bearing bonds of a commission, instrumentality,
22 authority, or political subdivision with legal authority to issue interest bearing bonds,
23 of the United States, Canada, a state, a province of Canada, a county or incorporated
24 city of a state, or a municipality of Canada;

25 (iv) [interest bearing bonds, notes, or other interest bearing
26 obligations of a corporation incorporated under the laws of the United States,
27 Canada, a state, or a province of Canada] OBLIGATIONS THAT ARE ISSUED,
28 ASSUMED, GUARANTEED, OR INSURED BY ANY BUSINESS ENTITY THAT IS
29 ORGANIZED UNDER THE LAWS OF THE UNITED STATES, ANOTHER STATE, CANADA,
30 OR ANY STATE, DISTRICT, PROVINCE, OR TERRITORY OF CANADA; or

31 (v) subject to paragraph (2) of this subsection, obligations of the
32 African Development Bank, Asian Development Bank, Inter-American Development
33 Bank, International Bank for Reconstruction and Development, or International
34 Finance Corporation.

35 (2) A life insurer may not invest more than 5% of its total admitted
36 assets in obligations of the African Development Bank, Asian Development Bank,
37 Inter-American Development Bank, International Bank for Reconstruction and
38 Development, or International Finance Corporation.

1 (e) The reserve investments of a life insurer may include equipment trust
2 obligations or certificates or other secured instruments that evidence:

3 (1) an interest in transportation or other equipment located wholly or
4 partly within the United States or Canada; and

5 (2) a right to receive determined parts of rental, purchases, or other
6 fixed obligatory payments received for the use or purchase of the transportation or
7 other equipment.

8 (f) (1) Subject to paragraph (2) of this subsection, the reserve investments
9 of a life insurer may include [dividend-paying stock of a corporation created or
10 existing under the laws of the United States, Canada, a state, or a province of
11 Canada] **EQUITY INTERESTS IN ANY BUSINESS ENTITY THAT IS ORGANIZED UNDER
12 THE LAWS OF THE UNITED STATES, ANY OF ITS STATES, CANADA, OR ANY PROVINCE
13 OR TERRITORY OF CANADA.**

14 (2) To the extent necessary to satisfy the reserve requirements of this
15 subtitle, a life insurer may not have [more than:

16 (i) 10% of its total admitted assets in preferred stock;

17 (ii) 10% of its total admitted assets in common stock; or

18 (iii) 5% of its total admitted assets in the stock of any one
19 corporation] **MORE THAN 20% OF ITS TOTAL ADMITTED ASSETS IN EQUITY
20 INTERESTS OR 5% OF ITS TOTAL ADMITTED ASSETS IN THE EQUITY INTERESTS OF
21 ANY ONE BUSINESS ENTITY.**

22 (g) (1) The reserve investments of a life insurer may include loans secured
23 by first mortgages, or deeds of trust, on unencumbered fee-simple or improved
24 leasehold real estate in a state or a province of Canada in an amount not exceeding
25 85% of the fair market value of the real estate.

26 (2) A life insurer may not include an amount from an investment made
27 under paragraph (1) of this subsection that exceeds 75% of the fair market value of
28 the real estate in reserve and capital stock investments under this subtitle unless the
29 real estate:

30 (i) is primarily improved by a residence; or

31 (ii) is farm property used for farming purposes and the loan amount
32 on any one farm property does not exceed \$500,000.

33 (3) (i) Notwithstanding paragraph (1) of this subsection, but subject to
34 subparagraph (ii) of this paragraph, a life insurer may include an amount from an
35 investment made under paragraph (1) of this subsection not exceeding 95% of the fair
36 market value of the real estate if:

1 1. the real estate is improved by a dwelling primarily
2 intended for occupancy by not more than four families; and

3 2. a mortgage insurance company authorized to do business
4 in this State and not affiliated with the entity making the loan guarantees or insures
5 that part of the loan in excess of 85% of the fair market value of the real estate.

6 (ii) A life insurer may not place more than 3% of its admitted assets
7 in loans in which the amount of the loan exceeds 90% of the fair market value of the
8 security of the loan.

9 (4) A loan authorized by this subsection must provide for the
10 amortization of principal over a period of not more than 30 years, with payments to be
11 made at least annually.

12 (5) (i) If a loan is made on real estate improved by a building, the
13 improvements must be insured against loss by fire.

14 (ii) The fire insurance policy required by subparagraph (i) of this
15 paragraph shall:

16 1. contain the New York or Massachusetts standard
17 mortgage clause or its equivalent; and

18 2. be delivered to the mortgagee as additional security for
19 the loan.

20 (iii) A policy that insures against loss by fire and other coverages
21 satisfies the requirements of this subsection.

22 (6) The requirements of this section and any other law of the State that
23 require security on a loan, prescribe the nature, amount, or form of security on a loan,
24 or limit the interest rate on a loan do not apply if the reserve investments consist of
25 bonds, notes, or other evidences of indebtedness secured by mortgages or deeds of
26 trust that are guaranteed or insured by an instrumentality of the United States
27 under the National Housing Act, Servicemen's Readjustment Act of 1944, or
28 Bankhead-Jones Farm Tenant Act.

29 (h) (1) Subject to paragraphs (2) and (3) of this subsection, the reserve
30 investments of a life insurer may include ground rents in any state.

31 (2) For unexpired redeemable ground rents, any premiums paid must be:

32 (i) amortized over the period between the date of acquisition and
33 the earliest redemption date; or

34 (ii) charged off before the redemption date.

35 (3) For expired redeemable ground rents, any premiums paid must be
36 charged off when acquired.

1 (4) A life insurer shall carry redeemable ground rents purchased at a
2 discount at an amount not greater than the cost of acquisition.

3 (i) (1) The reserve investments of a life insurer may include collateral loans
4 secured by pledge of any security listed in subsections (c) through (h) of this section if
5 the current market value of the pledged security at all times during the term of the
6 loan is at least 10% more than the unpaid balance of the loan amount.

7 (2) Each collateral loan is subject to the power of the life insurer to
8 terminate it if the pledged security depreciates below 10% of the unpaid balance of
9 the loan amount.

10 (j) (1) For purposes of this subsection, real estate sold under a contract of
11 sale in which title is retained in the life insurer shall be classified as real estate.

12 (2) Subject to paragraph (3) of this subsection, the reserve investments
13 of a life insurer may include:

14 (i) real estate for the office and business purposes only of the life
15 insurer, except as authorized by subsections (g) and (h) of this section; or

16 (ii) property primarily for the use of employees or customers of the
17 life insurer for parking with or without charge.

18 (3) The equity value of all real estate held under paragraph (2) of this
19 subsection may not exceed 20% of the life insurer's total admitted assets.

20 (4) A life insurer may purchase and hold real estate under a foreclosure
21 of its own mortgages or a deed in lieu of mortgage foreclosure for not more than 5
22 years.

23 (5) Subject to paragraph (6) of this subsection, the Commissioner may
24 grant extensions for periods not exceeding 5 years each of the period within which
25 real estate may be held under paragraph (4) of this subsection, if the Commissioner
26 considers the extensions necessary to serve the best interest of the life insurer and its
27 policyholders.

28 (6) Before the Commissioner may refuse to grant extensions under
29 paragraph (5) of this subsection, an appraisal of the real estate shall be obtained. If
30 the appraisal shows that the appraised value of the real estate equals or exceeds the
31 book value of the real estate, the Commissioner shall grant extensions for periods not
32 exceeding 5 years each.

33 (7) With the written approval of the Commissioner, a life insurer may
34 acquire property as partial payment of the consideration for the sale of real estate
35 owned by the life insurer if the transaction causes a net reduction in the investment
36 of the life insurer in real estate.

1 (8) With the approval of the Commissioner, a life insurer may acquire
2 other real estate if necessary or convenient to enhance the market value of real estate
3 previously acquired or held by the life insurer in accordance with this subsection.

4 (k) The reserve investments of a life insurer may include interest, rents, or
5 other fixed income due and accrued on:

6 (1) an investment authorized under subsections (c) through (e) and (g)
7 through (j) of this section; or

8 (2) policy loans of the life insurer.

9 (l) (1) The real estate authorized by this subsection to be held as a reserve
10 investment by a life insurer does not include property to be used primarily for mining,
11 recreational, amusement, hotel, or club purposes.

12 (2) Subject to paragraphs (3) through (6) of this subsection, the reserve
13 investments of a life insurer may include fee-simple or improved leasehold real estate
14 or interests in limited partnerships formed for the development or ownership of
15 fee-simple or improved leasehold real estate, if acquired:

16 (i) as an investment for the production of income; or

17 (ii) to be improved or developed as an investment for the production
18 of income.

19 (3) The cost of each parcel of fee-simple or improved leasehold real
20 estate or each limited partnership interest acquired under this subsection, including
21 the cost to the life insurer of improving or developing the real estate, may not exceed:

22 (i) 15% of the admitted assets of the life insurer, when added to the
23 book value of all other fee-simple or improved leasehold real estate or limited
24 partnership interests then held by the life insurer under this subsection; and

25 (ii) 20% of the total admitted assets of the life insurer, when added
26 to the value of all real estate however acquired or held for investment by the life
27 insurer, including home office and branch office properties.

28 (4) The cost of each parcel of fee-simple or improved leasehold real
29 estate or each limited partnership interest acquired under this section, including the
30 cost to the life insurer of improving or developing the real estate, may not exceed 1%
31 of the admitted assets of the life insurer.

32 (5) (i) Except as otherwise required by the Commissioner, each parcel
33 of fee-simple or improved leasehold real estate held by a life insurer directly or
34 through a limited partnership under this subsection shall be valued on the books of
35 the life insurer as of December 31 of each year at an amount that includes a
36 write-down of the cost of the property, excluding the land cost, but including all
37 improvements or development costs, at a rate that averages not less than 2% per year
38 of the cost of the property for each year or part of a year that the property is held.

1 (ii) The admitted values of each parcel of fee-simple or improved
2 leasehold real estate held under this subsection may not exceed the depreciated value
3 of the property.

4 (6) A life insurer may not count towards its cash reserves any more than
5 the lesser of:

6 (i) 75% of the investment value of any limited partnership interest;
7 and

8 (ii) 75% of the current book value of that limited partnership
9 interest.

10 (7) (i) Interests in limited partnerships under this subsection shall be
11 valued at the actual cost of the investment adjusted by any additional capital
12 contributions or capital withdrawals.

13 (ii) The valuation of a limited partnership interest may not exceed
14 the life insurer's proportionate share of the equity of the real estate asset owned by
15 the limited partnership.

16 (M) THE RESERVE INVESTMENTS OF A LIFE INSURER MAY INCLUDE THOSE
17 INVESTMENTS PERMITTED UNDER § 5-509 OF THIS SUBTITLE.

18 (N) (1) THE RESERVE INVESTMENTS OF A LIFE INSURER MAY INCLUDE
19 SECURITIES LENDING, REPURCHASE, REVERSE REPURCHASE, AND DOLLAR ROLL
20 TRANSACTIONS WITH BUSINESS ENTITIES, SUBJECT TO THE REQUIREMENTS OF
21 PARAGRAPHS (2) THROUGH (9) OF THIS SUBSECTION.

22 (2) THE INSURER'S BOARD OF DIRECTORS SHALL ADOPT A WRITTEN
23 PLAN THAT SPECIFIES GUIDELINES AND OBJECTIVES TO BE FOLLOWED, SUCH AS:

24 (I) A DESCRIPTION OF HOW CASH RECEIVED WILL BE INVESTED
25 OR USED FOR GENERAL CORPORATE PURPOSES OF THE INSURER;

26 (II) OPERATIONAL PROCEDURES TO MANAGE INTEREST RATE RISK,
27 COUNTERPARTY DEFAULT RISK, THE CONDITIONS UNDER WHICH PROCEEDS FROM
28 REVERSE REPURCHASE TRANSACTIONS MAY BE USED IN THE ORDINARY COURSE OF
29 BUSINESS, AND THE USE OF ACCEPTABLE COLLATERAL IN A MANNER THAT
30 REFLECTS THE LIQUIDITY NEEDS OF THE TRANSACTION; AND

31 (III) THE EXTENT TO WHICH THE INSURER MAY ENGAGE IN THESE
32 TRANSACTIONS.

33 (3) (I) THE INSURER SHALL ENTER INTO A WRITTEN AGREEMENT FOR
34 ALL TRANSACTIONS AUTHORIZED UNDER THIS SUBSECTION OTHER THAN DOLLAR
35 ROLL TRANSACTIONS.

1 (II) THE WRITTEN AGREEMENT SHALL REQUIRE THAT EACH
2 TRANSACTION TERMINATE NO MORE THAN 1 YEAR FROM ITS INCEPTION OR ON THE
3 EARLIER DEMAND OF THE INSURER.

4 (III) THE AGREEMENT SHALL BE WITH THE BUSINESS ENTITY
5 COUNTERPARTY, BUT FOR SECURITIES LENDING TRANSACTIONS, THE AGREEMENT
6 MAY BE WITH AN AGENT ACTING ON BEHALF OF THE INSURER, IF THE AGENT IS A
7 QUALIFIED BUSINESS ENTITY, AND IF THE AGREEMENT:

8 1. REQUIRES THE AGENT TO ENTER INTO SEPARATE
9 AGREEMENTS WITH EACH COUNTERPARTY THAT ARE CONSISTENT WITH THE
10 REQUIREMENTS OF THIS SECTION; AND

11 2. PROHIBITS SECURITIES LENDING TRANSACTIONS UNDER
12 THE AGREEMENT WITH THE AGENT OR ITS AFFILIATES.

13 (4) (I) CASH RECEIVED IN A TRANSACTION UNDER THIS SUBSECTION
14 SHALL BE INVESTED IN ACCORDANCE WITH THIS SUBTITLE AND IN A MANNER THAT
15 RECOGNIZES THE LIQUIDITY NEEDS OF THE TRANSACTION OR USED BY THE
16 INSURER FOR ITS GENERAL CORPORATE PURPOSES.

17 (II) FOR SO LONG AS THE TRANSACTION REMAINS OUTSTANDING,
18 THE INSURER, ITS AGENT, OR CUSTODIAN SHALL MAINTAIN, AS TO ACCEPTABLE
19 COLLATERAL RECEIVED IN A TRANSACTION UNDER THIS SUBSECTION, EITHER
20 PHYSICALLY OR THROUGH THE BOOK ENTRY SYSTEMS OF THE FEDERAL RESERVE,
21 DEPOSITORY TRUST COMPANY, PARTICIPANTS TRUST COMPANY, OR OTHER
22 SECURITIES DEPOSITORIES APPROVED BY THE COMMISSIONER:

23 1. POSSESSION OF THE ACCEPTABLE COLLATERAL;

24 2. A PERFECTED SECURITY INTEREST IN THE ACCEPTABLE
25 COLLATERAL; OR

26 3. IN THE CASE OF A JURISDICTION OUTSIDE THE UNITED
27 STATES, TITLE TO, OR RIGHTS OF A SECURED CREDITOR TO, THE ACCEPTABLE
28 COLLATERAL.

29 (5) (I) THE LIMITATIONS OF § 5-507 OF THIS SUBTITLE DO NOT APPLY
30 TO THE BUSINESS ENTITY COUNTERPARTY EXPOSURE CREATED BY TRANSACTIONS
31 UNDER THIS SUBSECTION.

32 (II) FOR PURPOSES OF CALCULATIONS MADE TO DETERMINE
33 COMPLIANCE WITH THIS SUBSECTION, NO EFFECT WILL BE GIVEN TO THE
34 INSURER'S FUTURE OBLIGATION TO RESELL SECURITIES, IN THE CASE OF A
35 REPURCHASE TRANSACTION, OR TO REPURCHASE SECURITIES, IN THE CASE OF A
36 REVERSE REPURCHASE TRANSACTION.

37 (III) AN INSURER MAY NOT ENTER INTO A TRANSACTION UNDER
38 THIS SUBSECTION IF, AS A RESULT OF AND AFTER GIVING EFFECT TO THE
39 TRANSACTION:

1 1. A. THE AGGREGATE AMOUNT OF SECURITIES THEN
2 LOANED, SOLD TO, OR PURCHASED FROM ANY ONE BUSINESS ENTITY
3 COUNTERPARTY UNDER THIS SUBSECTION WOULD EXCEED 5% OF ITS ADMITTED
4 ASSETS; AND

5 B. IN CALCULATING THE AMOUNT SOLD TO OR PURCHASED
6 FROM A BUSINESS ENTITY COUNTERPARTY UNDER REPURCHASE OR REVERSE
7 REPURCHASE TRANSACTIONS, EFFECT MAY BE GIVEN TO MEETING PROVISIONS
8 UNDER A MASTER WRITTEN AGREEMENT; OR

9 2. THE AGGREGATE AMOUNT OF ALL SECURITIES THEN
10 LOANED, SOLD TO, OR PURCHASED FROM ALL BUSINESS ENTITIES UNDER THIS
11 SUBSECTION WOULD EXCEED 40% OF ITS ADMITTED ASSETS.

12 (6) (I) IN A SECURITIES LENDING TRANSACTION, THE INSURER SHALL
13 RECEIVE ACCEPTABLE COLLATERAL HAVING A MARKET VALUE AS OF THE
14 TRANSACTION DATE AT LEAST EQUAL TO 102% OF THE MARKET VALUE OF THE
15 SECURITIES LOANED BY THE INSURER IN THE TRANSACTION AS OF THAT DATE.

16 (II) IF AT ANY TIME THE MARKET VALUE OF THE ACCEPTABLE
17 COLLATERAL IS LESS THAN THE MARKET VALUE OF THE LOANED SECURITIES, THE
18 BUSINESS ENTITY COUNTERPARTY SHALL BE OBLIGATED TO DELIVER ADDITIONAL
19 ACCEPTABLE COLLATERAL, THE MARKET VALUE OF WHICH, TOGETHER WITH THE
20 MARKET VALUE OF ALL ACCEPTABLE COLLATERAL THEN HELD IN CONNECTION
21 WITH THE TRANSACTION, AT LEAST EQUALS 102% OF THE MARKET VALUE OF THE
22 LOANED SECURITIES.

23 (7) (I) IN A REVERSE REPURCHASE TRANSACTION, OTHER THAN A
24 DOLLAR ROLL TRANSACTION, THE INSURER SHALL RECEIVE ACCEPTABLE
25 COLLATERAL HAVING A MARKET VALUE AS OF THE TRANSACTION DATE AT LEAST
26 EQUAL TO 95% OF THE MARKET VALUE OF THE SECURITIES TRANSFERRED BY THE
27 INSURER IN THE TRANSACTION AS OF THAT DATE.

28 (II) IF AT ANY TIME THE MARKET VALUE OF THE ACCEPTABLE
29 COLLATERAL IS LESS THAN 95% OF THE MARKET VALUE OF THE SECURITIES SO
30 TRANSFERRED, THE BUSINESS ENTITY COUNTERPARTY SHALL BE OBLIGATED TO
31 DELIVER ADDITIONAL ACCEPTABLE COLLATERAL, THE MARKET VALUE OF WHICH,
32 TOGETHER WITH THE MARKET VALUE OF ALL ACCEPTABLE COLLATERAL THEN
33 HELD IN CONNECTION WITH THE TRANSACTION, AT LEAST EQUALS 95% OF THE
34 MARKET VALUE OF THE TRANSFERRED SECURITIES.

35 (8) IN A DOLLAR ROLL TRANSACTION, THE INSURER SHALL RECEIVE
36 CASH IN AN AMOUNT AT LEAST EQUAL TO THE MARKET VALUE OF THE SECURITIES
37 TRANSFERRED BY THE INSURER IN THE TRANSACTION AS OF THE TRANSACTION
38 DATE.

39 (9) (I) IN A REPURCHASE TRANSACTION, THE INSURER SHALL
40 RECEIVE AS ACCEPTABLE COLLATERAL TRANSFERRED SECURITIES HAVING A
41 MARKET VALUE AT LEAST EQUAL TO 102% OF THE PURCHASE PRICE PAID BY THE
42 INSURER FOR THE SECURITIES.

1 (II) IF AT ANY TIME THE MARKET VALUE OF THE ACCEPTABLE
2 COLLATERAL IS LESS THAN 100% OF THE PURCHASE PRICE PAID BY THE INSURER,
3 THE BUSINESS ENTITY COUNTERPARTY SHALL BE OBLIGATED TO PROVIDE
4 ADDITIONAL ACCEPTABLE COLLATERAL, THE MARKET VALUE OF WHICH, TOGETHER
5 WITH THE MARKET VALUE OF ALL ACCEPTABLE COLLATERAL THEN HELD IN
6 CONNECTION WITH THE TRANSACTION, AT LEAST EQUALS 102% OF THE PURCHASE
7 PRICE.

8 (III) SECURITIES ACQUIRED BY AN INSURER IN A REPURCHASE
9 TRANSACTION MAY NOT BE SOLD IN A REVERSE REPURCHASE TRANSACTION,
10 LOANED IN A SECURITIES LENDING TRANSACTION, OR OTHERWISE PLEDGED.

11 (O) (1) THE RESERVE INVESTMENTS OF A LIFE INSURER MAY INCLUDE
12 DERIVATIVE TRANSACTIONS UNDER THIS SUBSECTION, WHETHER ENTERED INTO
13 DIRECTLY OR INDIRECTLY THROUGH AN INVESTMENT SUBSIDIARY, UNDER THE
14 CONDITIONS OF PARAGRAPHS (2) THROUGH (7) OF THIS SUBSECTION.

15 (2) (I) AN INSURER MAY USE DERIVATIVE INSTRUMENTS UNDER THIS
16 SUBSECTION TO ENGAGE IN HEDGING TRANSACTIONS AND INCOME GENERATION
17 TRANSACTIONS.

18 (II) AN INSURER SHALL BE ABLE TO DEMONSTRATE TO THE
19 COMMISSIONER THE INTENDED HEDGING CHARACTERISTICS AND THE ONGOING
20 EFFECTIVENESS OF THE DERIVATIVE TRANSACTION OR COMBINATION OF THE
21 TRANSACTIONS THROUGH CASH FLOW TESTING OR OTHER APPROPRIATE ANALYSES.

22 (III) THE COMMISSIONER MAY ADOPT REASONABLE REGULATIONS
23 FOR INVESTMENTS AND TRANSACTIONS UNDER THIS SUBSECTION, INCLUDING
24 REGULATIONS TO IMPOSE FINANCIAL SOLVENCY STANDARDS, VALUATION
25 STANDARDS, AND REPORTING REQUIREMENTS.

26 (IV) WHENEVER THE DERIVATIVE TRANSACTIONS ENTERED INTO
27 UNDER THIS SUBSECTION ARE NOT IN COMPLIANCE WITH THIS SUBSECTION OR, IF
28 CONTINUED, MAY NOW OR SUBSEQUENTLY, CREATE A HAZARDOUS FINANCIAL
29 CONDITION TO THE INSURER THAT AFFECTS ITS POLICYHOLDERS, CREDITORS, OR
30 THE GENERAL PUBLIC, THE COMMISSIONER MAY, AFTER NOTICE AND AN
31 OPPORTUNITY FOR A HEARING, ORDER THE INSURER TO TAKE ANY ACTION AS MAY
32 BE REASONABLY NECESSARY TO:

33 1. RECTIFY A HAZARDOUS FINANCIAL CONDITION; OR

34 2. PREVENT AN IMPENDING HAZARDOUS FINANCIAL
35 CONDITION FROM OCCURRING.

36 (3) AN INSURER MAY ENTER INTO HEDGING TRANSACTIONS UNDER
37 THIS SUBSECTION IF, AS A RESULT OF AND AFTER GIVING EFFECT TO THE
38 TRANSACTION:

39 (I) THE AGGREGATE STATEMENT VALUE OF OPTIONS, CAPS,
40 FLOORS, AND WARRANTS NOT ATTACHED TO ANOTHER FINANCIAL INSTRUMENT

1 PURCHASED AND USED IN HEDGING TRANSACTIONS DOES NOT EXCEED 7.5% OF ITS
2 ADMITTED ASSETS;

3 (II) THE AGGREGATE STATEMENT VALUE OF OPTIONS, CAPS, AND
4 FLOORS WRITTEN IN HEDGING TRANSACTIONS DOES NOT EXCEED 3% OF ITS
5 ADMITTED ASSETS; AND

6 (III) THE AGGREGATE POTENTIAL EXPOSURE OF COLLARS, SWAPS,
7 FORWARDS, AND FUTURES USED IN HEDGING TRANSACTIONS DOES NOT EXCEED
8 6.5% OF ITS ADMITTED ASSETS.

9 (4) (I) AN INSURER MAY ENTER INTO THE FOLLOWING TYPES OF
10 INCOME GENERATION TRANSACTIONS SUBJECT TO THE QUANTITATIVE LIMITS OF
11 SUBPARAGRAPH (II) OF THIS PARAGRAPH:

12 1. SALES OF COVERED CALL OPTIONS ON NONCALLABLE
13 FIXED INCOME SECURITIES, CALLABLE FIXED INCOME SECURITIES IF THE OPTION
14 EXPIRES BY ITS TERMS PRIOR TO THE END OF THE NONCALLABLE PERIOD, OR
15 DERIVATIVE INSTRUMENTS BASED ON FIXED INCOME SECURITIES;

16 2. SALES OF COVERED CALL OPTIONS ON EQUITY
17 SECURITIES, IF THE INSURER HOLDS IN ITS PORTFOLIO, OR CAN IMMEDIATELY
18 ACQUIRE THROUGH THE EXERCISE OF OPTIONS, WARRANTS, OR CONVERSION
19 RIGHTS ALREADY OWNED, THE EQUITY SECURITIES SUBJECT TO CALL DURING THE
20 COMPLETE TERM OF THE CALL OPTION SOLD;

21 3. SALES OF COVERED PUTS ON INVESTMENTS THAT THE
22 INSURER IS PERMITTED TO ACQUIRE UNDER THIS SUBTITLE, IF THE INSURER HAS
23 ESCROWED, OR ENTERED INTO A CUSTODIAN AGREEMENT SEGREGATING, CASH OR
24 CASH EQUIVALENTS WITH A MARKET VALUE EQUAL TO THE AMOUNT OF ITS
25 PURCHASE OBLIGATIONS UNDER THE PUT DURING THE COMPLETE TERM OF THE
26 PUT OPTION SOLD; OR

27 4. SALES OF COVERED CAPS OR FLOORS, IF THE INSURER
28 HOLDS IN ITS PORTFOLIO THE INVESTMENTS GENERATING THE CASH FLOW TO
29 MAKE THE REQUIRED PAYMENTS UNDER THE CAPS OR FLOORS DURING THE
30 COMPLETE TERM THAT THE CAP OR FLOOR IS OUTSTANDING.

31 (II) THE TRANSACTIONS DESCRIBED IN SUBPARAGRAPH (I) OF THIS
32 PARAGRAPH ARE SUBJECT TO THE FOLLOWING QUANTITATIVE LIMITS: IF AS A
33 RESULT OF AND AFTER GIVING EFFECT TO THE TRANSACTIONS, THE AGGREGATE
34 STATEMENT VALUE OF THE FIXED INCOME ASSETS THAT ARE SUBJECT TO CALL OR
35 THAT GENERATE THE CASH FLOWS FOR PAYMENTS UNDER THE CAPS OR FLOORS,
36 PLUS THE FACE VALUE OF FIXED INCOME SECURITIES UNDERLYING A DERIVATIVE
37 INSTRUMENT SUBJECT TO CALL, PLUS THE AMOUNT OF THE PURCHASE
38 OBLIGATIONS UNDER THE PUTS, DOES NOT EXCEED 10% OF ITS ADMITTED ASSETS.

39 (5) AN INSURER SHALL INCLUDE ALL COUNTERPARTY EXPOSURE
40 AMOUNTS IN DETERMINING COMPLIANCE WITH THE LIMITATIONS OF § 5-507 OF
41 THIS SUBTITLE.

1 (6) (I) IN ACCORDANCE WITH REGULATIONS ADOPTED UNDER THIS
2 SUBSECTION, THE COMMISSIONER MAY APPROVE ADDITIONAL TRANSACTIONS
3 INVOLVING THE USE OF DERIVATIVE INSTRUMENTS IN EXCESS OF THE LIMITS OF
4 PARAGRAPH (3) OF THIS SUBSECTION OR FOR OTHER RISK MANAGEMENT PURPOSES
5 UNDER REGULATIONS ADOPTED BY THE COMMISSIONER, BUT REPLICATION
6 TRANSACTIONS MAY NOT BE PERMITTED FOR OTHER THAN RISK MANAGEMENT
7 PURPOSES.

8 (II) AN INSURER MAY PURCHASE OR SELL ONE OR MORE
9 DERIVATIVE INSTRUMENTS TO OFFSET, IN WHOLE OR IN PART, ANY DERIVATIVE
10 INSTRUMENT PREVIOUSLY PURCHASED OR SOLD, AS THE CASE MAY BE, WITHOUT
11 REGARD TO THE QUANTITATIVE LIMITATIONS OF THIS SUBSECTION, PROVIDED
12 THAT THE OFFSETTING TRANSACTION UTILIZES THE SAME TYPE OF DERIVATIVE
13 INSTRUMENT AS THE DERIVATIVE INSTRUMENT BEING OFFSET.

14 (7) EACH DERIVATIVE INSTRUMENT SHALL BE:

15 (I) TRADED ON A SECURITIES EXCHANGE;

16 (II) ENTERED INTO WITH, OR GUARANTEED BY, A BUSINESS
17 ENTITY;

18 (III) ISSUED OR WRITTEN BY OR ENTERED INTO WITH THE ISSUER
19 OF THE UNDERLYING INTEREST ON WHICH THE DERIVATIVE INSTRUMENT IS BASED;
20 OR

21 (IV) IN THE CASE OF FUTURES, TRADED THROUGH A BROKER THAT
22 IS REGISTERED AS A FUTURES COMMISSION MERCHANT UNDER THE COMMODITY
23 EXCHANGE ACT OR THAT HAS RECEIVED EXEMPTIVE RELIEF FROM REGISTRATION
24 UNDER RULE 30.10 ADOPTED UNDER THE COMMODITY EXCHANGE ACT.

25 (P) (1) THE RESERVE INVESTMENTS OF A LIFE INSURER MAY INCLUDE
26 MONEY MARKET MUTUAL FUNDS AS DEFINED BY 17 CFR 270.2A-7 UNDER THE
27 INVESTMENT COMPANY ACT OF 1940 (15 U.S.C. 80A-1 ET SEQ.) THAT MAY BE EITHER
28 OF THE FOLLOWING:

29 (I) GOVERNMENT MONEY MARKET MUTUAL FUND, WHICH IS A
30 MONEY MARKET MUTUAL FUND THAT:

31 1. INVESTS ONLY IN OBLIGATIONS ISSUED, GUARANTEED,
32 OR INSURED BY THE FEDERAL GOVERNMENT OF THE UNITED STATES OR
33 COLLATERALIZED REPURCHASE AGREEMENTS COMPOSED OF THESE OBLIGATIONS;
34 AND

35 2. QUALIFIES FOR INVESTMENT WITHOUT A RESERVE
36 UNDER THE PURPOSES AND PROCEDURES OF THE SECURITIES VALUATION OFFICE
37 OR ANY SUCCESSOR PUBLICATION; OR

38 (II) CLASS ONE MONEY MARKET MUTUAL FUND, WHICH IS A
39 MONEY MARKET MUTUAL FUND THAT QUALIFIES FOR INVESTMENT USING THE

1 BOND CLASS ONE RESERVE FACTOR UNDER THE PURPOSES AND PROCEDURES OF
2 THE SECURITIES VALUATION OFFICE OR ANY SUCCESSOR PUBLICATION.

3 (2) FOR PURPOSES OF DETERMINING WHETHER A MONEY MARKET
4 MUTUAL FUND IS TO BE CLASSIFIED AS AN EQUITY INTEREST OR WITHIN THIS
5 SUBSECTION, MONEY MARKET FUNDS QUALIFYING FOR LISTING WITHIN THIS
6 SUBSECTION MUST CONFORM TO THE PURPOSES AND PROCEDURES OF THE
7 SECURITIES VALUATION OFFICE OR ANY SUCCESSOR PUBLICATION.

8 (Q) THE RESERVE INVESTMENTS OF A LIFE INSURER MAY INCLUDE OTHER OR
9 ADDITIONAL INVESTMENTS AS MAY BE PERMITTED UNDER REGULATIONS ADOPTED
10 BY THE COMMISSIONER.

11 SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall take effect
12 October 1, 2000.