

2021 Regular Session

SENATE BILL NO. 73

BY SENATOR MILLIGAN

Prefiled pursuant to Article III, Section 2(A)(4)(b)(i) of the Constitution of Louisiana.

INSURERS. Provides relative to investment of domestic insurers. (1/1/22)

1 AN ACT  
2 To enact Subpart B-1 of Part III of Chapter 2 of Title 22 of the Louisiana Revised Statutes  
3 of 1950, to be comprised of R.S. 22:601.1 through 601.21, and to repeal Subpart B  
4 of Part III of Chapter 2 of Title 22 of the Louisiana Revised Statutes of 1950,  
5 comprised of R.S. 22:581 through 601, relative to investments of domestic insurers;  
6 to provide for definitions; to provide for qualified investments for insurers; to  
7 provide for a written investment policy; to provide for the authorization of  
8 investments; to provide for a valuation method for investments; to provide for  
9 limitations on investments; to provide for investments in bonds, equity interests,  
10 mortgage loans, and real estate; to provide for transactions involving the lending,  
11 repurchase, and reverse repurchase of securities; to provide for dollar roll  
12 transactions; to provide for foreign investments and currency exposure; to provide  
13 for insurer investment pools; to provide for derivative transactions; to provide for  
14 collateral loans; to provide for other assets; to provide for authority to invest in  
15 certain assets beyond percentage limitations; to provide for prohibited investments;  
16 to provide for restrictions on the pledging of assets; to provide for limitations on  
17 loans to and investments involving officers and directors; to provide for judicial

1 review and mandamus; and to provide for related matters.

2 Be it enacted by the Legislature of Louisiana:

3 Section 1. Subpart B-1 of Part III of Chapter 2 of Title 22 of the Louisiana Revised  
4 Statutes of 1950, to be comprised of R.S. 22:601.1 through 601.21 is hereby enacted to read  
5 as follows:

6 **SUBPART B-1. DOMESTIC INSURER INVESTMENTS**

7 **§601.1. Definitions**

8 **As used in this Subpart, the following terms have the following**  
9 **meanings:**

10 **(1) "Acceptable collateral" means any of the following:**

11 **(a) As to securities lending transactions, and for the purpose of**  
12 **calculating counterparty exposure amount, cash, cash equivalents, letters of**  
13 **credit, direct obligations of, or securities that are fully guaranteed as to**  
14 **principal and interest by, the government of the United States or any agency of**  
15 **the United States, or by the Federal National Mortgage Association or the**  
16 **Federal Home Loan Mortgage Corporation, or any state or territory of the**  
17 **United States or the District of Columbia and as to lending foreign securities,**  
18 **sovereign debt rated one by the SVO.**

19 **(b) As to reverse repurchase transactions, cash, cash equivalents and**  
20 **direct obligations of, or securities that are fully guaranteed as to principal and**  
21 **interest by, the government of the United States or an agency of the United**  
22 **States, or by the Federal National Mortgage Association or the Federal Home**  
23 **Loan Mortgage Corporation, or any state or territory of the United States or**  
24 **the District of Columbia.**

25 **(c) As to reverse repurchase transactions, cash, or cash equivalents.**

26 **(2) "Admitted assets" means assets permitted to be reported as admitted**  
27 **assets on the statutory financial statement of the insurer most recently required**  
28 **to be filed with the commissioner, but excluding assets of separate accounts, the**  
29 **investments of which are not subject to the provisions of this Subpart.**

1           **(3) "Affiliate" means, as to any person, another person that, directly or**  
2           **indirectly through one or more intermediaries, controls, is controlled by, or is**  
3           **under common control with the person.**

4           **(4) "Asset-backed security" means a security or other instrument,**  
5           **excluding a mutual fund and mortgage-backed securities, evidencing an interest**  
6           **in, or the right to receive payments from, or payable from distributions on, an**  
7           **asset, a pool of assets or specifically divisible cash flows which are legally**  
8           **transferred to a trust or another special purpose bankruptcy-remote business**  
9           **entity, on both of the following conditions:**

10           **(a) The trust or other business entity is established solely for the purpose**  
11           **of acquiring specific types of assets or rights to cash flows, issuing securities and**  
12           **other instruments representing an interest in or right to receive cash flows from**  
13           **those assets or rights, and engaging in activities required to service the assets or**  
14           **rights and any credit enhancement or support features held by the trust or**  
15           **other business entity.**

16           **(b) The assets of the trust or other business entity consist solely of**  
17           **interest bearing obligations or other contractual obligations representing the**  
18           **right to receive payment from the cash flows from the assets or rights. The**  
19           **existence of credit enhancements, such as letters of credit or guarantees, or**  
20           **support features such as swap agreements, shall not cause a security or other**  
21           **instrument to be ineligible as an asset-backed security.**

22           **(5) "Bonds" means any securities representing a creditor relationship**  
23           **whereby there is a fixed legal maturity date or fixed schedule for one or more**  
24           **future payments. The term "bonds" includes the following:**

25           **(a) United States Treasury securities.**

26           **(b) United States government agency securities.**

27           **(c) Obligations issued by a municipality or political subdivision in this**  
28           **state or any other state or territory of the United States or the District of**  
29           **Columbia.**

1 (d) Corporate bonds, including Yankee bonds and zero-coupon bonds.

2 (e) Convertible bonds, including mandatory convertible bonds.

3 (f) Listed bond funds.

4 (g) Fixed-income instruments specifically identified as follows:

5 (i) Certifications of deposit that have a fixed schedule of payments and  
6 a maturity date in excess of one year from the date of acquisition.

7 (ii) Bank loans issued directly by a reporting entity or acquired through  
8 a participation, syndication, or assignment.

9 (iii) Hybrid securities, excluding surplus notes, subordinated debt issues  
10 which have no coupon deferral features, and traditional preferred stocks.

11 (iv) Debt instruments in a certified capital company.

12 (6) "Business entity" includes a sole proprietorship, corporation, limited  
13 liability company, association, partnership, joint stock company, joint venture,  
14 mutual fund, trust, joint tenancy, or other similar form of business  
15 organization, whether organized for-profit or not-for-profit.

16 (7) "Cap" means an agreement obligating the seller to make payments  
17 to the buyer, with each payment based on the amount by which a reference  
18 price or level or the performance or value of one or more underlying interests  
19 exceeds a predetermined number, sometimes called the strike rate or strike  
20 price.

21 (8) "Capital and surplus" means the sum of the capital and surplus of  
22 the insurer required to be shown on the statutory financial statement of the  
23 insurer most recently required to be filed with the commissioner.

24 (9) "Cash equivalents" means short-term, highly rated, and highly liquid  
25 investments or securities readily convertible to known amounts of cash without  
26 penalty and so near maturity that they present insignificant risk of change in  
27 value. Cash equivalents include money market mutual funds. For purposes of  
28 this definition:

29 (a) "Short-term" means investments with a remaining term to maturity

1 of ninety days or less.

2 (b) "Highly rated" means an investment rated "P-1" by Moody's  
3 Investors Service, Inc., or "A-1" by S&P Global Ratings or its equivalent rating  
4 by a nationally recognized statistical rating organization recognized by the  
5 SVO.

6 (10) "Collar" means an agreement to receive payments as the buyer of  
7 an option, cap, or floor and to make payments as the seller of a different option,  
8 cap, or floor.

9 (11) "Control" as defined by R.S. 22:691.2.

10 (12) "Counterparty exposure amount" means:

11 (a) The net amount of credit risk attributable to a derivative instrument  
12 executed with a business entity other than through a qualified exchange,  
13 qualified foreign exchange, or cleared through a qualified clearinghouse, also  
14 referred to as an "over-the-counter derivative instrument". The amount of  
15 credit risk equals:

16 (i) The market value of the over-the-counter derivative instrument if the  
17 liquidation of the derivative instrument would result in a final cash payment to  
18 the insurer.

19 (ii) Zero if the liquidation of the derivative instrument would not result  
20 in a final cash payment to the insurer.

21 (b) If over-the-counter derivative instruments are executed under a  
22 written master agreement which provides for netting of payments owed by the  
23 respective parties, and the domiciliary jurisdiction of the counterparty is either  
24 within the United States or if not within the United States, within a foreign  
25 jurisdiction listed in the Purposes and Procedures Manual of the NAIC  
26 Investment Analysis Office or any successor publication as eligible for netting,  
27 the net amount of credit risk shall be the greater of zero or the net sum of:

28 (i) The market value of the over-the-counter derivative instruments  
29 executed under the agreement, the liquidation of which would result in a final

1 cash payment to the insurer.

2 (ii) The market value of the over-the-counter derivative instruments  
3 executed under the agreement, the liquidation of which would result in a final  
4 cash payment by the insurer to the business entity.

5 (c) For open transactions, market value shall be determined at the end  
6 of the most recent quarter of the insurer's fiscal year and shall be reduced by  
7 the market value of acceptable collateral held by the insurer or placed in escrow  
8 by one or both parties.

9 (13) "Covered" means that an insurer owns or can immediately acquire,  
10 through the exercise of options, warrants, or conversion rights already owned,  
11 the underlying interest in order to fulfill or secure its obligations under a call  
12 option, cap, or floor it has written, or has set aside under a custodial or escrow  
13 agreement cash or cash equivalents with a market value equal to the amount  
14 required to fulfill its obligations under a put option it has written, in an income  
15 generation transaction.

16 (14)(a) "Derivative instrument" means an agreement, option,  
17 instrument, or a series or combination thereof:

18 (i) To make or take delivery of, or assume or relinquish, a specified  
19 amount of one or more underlying interests, or to make a cash settlement in lieu  
20 thereof.

21 (ii) That has a price, performance, value, or cash flow based primarily  
22 upon the actual or expected price, level, performance, value, or cash flow of one  
23 or more underlying interests.

24 (b) Derivative instruments may include options, or warrants used in a  
25 hedging transaction and not attached to another financial instrument, caps,  
26 floors, collars, swaps, forwards, futures, and any other agreements, options, or  
27 instruments substantially similar thereto or any series or combination thereof  
28 and any agreements, options, or instruments permitted under regulations  
29 adopted pursuant to the Administrative Procedure Act. Derivative instruments

1 shall not include an investment authorized by R.S. 22:601.7 through 601.9,  
2 601.11 through 601.13, and 601.16(3).

3 (15) "Derivative transaction" means a transaction involving the use of  
4 one or more derivative instruments.

5 (16) "Direct" or "directly", when used in connection with an obligation,  
6 means that the designated obligor is primarily liable on the instrument  
7 representing the obligation.

8 (17) "Dollar roll transaction" means two simultaneous transactions with  
9 different settlement dates no more than ninety-six days apart, so that in the  
10 transaction with the earlier settlement date, an insurer sells to a business entity,  
11 and in the other transaction the insurer is obligated to purchase from the same  
12 business entity, substantially similar securities of any of the following types:

13 (a) Asset-backed securities issued, assumed, or guaranteed by the  
14 Government National Mortgage Association, the Federal National Mortgage  
15 Association, the Federal Home Loan Mortgage Corporation, or their respective  
16 successors.

17 (b) Other asset-backed securities referred to in 15 U.S.C. 77r-1, as  
18 amended.

19 (18) "Equity interest" means any of the following that are not bonds:

20 (a) Common stock.

21 (b) Mutual fund.

22 (c) Exchange-traded fund.

23 (d) American Depository Receipt.

24 (e) Real Estate Investment Trust.

25 (f) Trust certificate.

26 (g) Investment in a common trust fund of a bank regulated by a federal  
27 or state agency.

28 (h) Shares of insured state-chartered building and loan or homestead  
29 associations and federal savings and loan associations, if such shares are insured

1 by the Federal Savings and Loan Insurance Corporation as specifically set forth  
2 under the terms of Title IV of the National Housing Act, 12 U.S.C. 1701 et seq.

3 (i) Warrants or other rights to acquire equity interests that are created  
4 by the person that owns or would issue the equity to be acquired.

5 (19) "Equivalent securities" means:

6 (a) In a securities lending transaction, securities that are identical to the  
7 loaned securities in all features including the amount of the loaned securities,  
8 except as to certificate number if held in physical form, but if any different  
9 security shall be exchanged for a loaned security by recapitalization, merger,  
10 consolidation, or other corporate action, the different security shall be  
11 considered to be the loaned security.

12 (b) In a repurchase transaction, securities that are identical to the sold  
13 securities in all features including the amount of the sold securities, except as to  
14 the certificate number if held in physical form.

15 (c) In a reverse repurchase transaction, securities that are identical to the  
16 purchased securities in all features including the amount of the purchased  
17 securities, except as to the certificate number if held in physical form.

18 (20) "Exchange-traded fund" means funds registered as open-end  
19 investment companies or unit investment trusts under 15 U.S.C. 80a-1 et seq.,  
20 as amended.

21 (21) "Floor" means an agreement obligating the seller to make payments  
22 to the buyer in which each payment is based on the amount by which a  
23 predetermined number, sometimes called the floor rate or price, exceeds a  
24 reference price, level, performance, or value of one or more underlying  
25 interests.

26 (22) "Foreign currency" means a currency other than that of a domestic  
27 jurisdiction.

28 (23) "Foreign investment" means an investment in a foreign jurisdiction,  
29 or an investment in a person, real estate, or asset domiciled in a foreign



1 jurisdiction, that is substantially of the same type as those eligible for  
2 investment pursuant to this Subpart, except as provided in R.S. 22:601.12. An  
3 investment shall not be considered to be foreign if the issuing person, qualified  
4 primary credit source, or qualified guarantor is a domestic jurisdiction or a  
5 person domiciled in a domestic jurisdiction, unless:

6 (a) The issuing person is a shell business entity.

7 (b) The investment is not assumed, accepted, guaranteed, or insured or  
8 otherwise backed by a domestic jurisdiction or a person that is not a shell  
9 business entity, domiciled in a domestic jurisdiction.

10 (c) For purposes of this definition:

11 (i) "Shell business entity" means a business entity having no economic  
12 substance, except as a vehicle for owning interests in assets issued, owned, or  
13 previously owned by a person domiciled in a foreign jurisdiction.

14 (ii) "Qualified guarantor" means a guarantor against which an insurer  
15 has a direct claim for full and timely payment, evidenced by a contractual right  
16 for which an enforcement action can be brought in a domestic jurisdiction.

17 (iii) "Qualified primary credit source" means the credit source to which  
18 an insurer looks for payment as to an investment and against which an insurer  
19 has a direct claim for full and timely payment, evidenced by a contractual right  
20 for which an enforcement action can be brought in a domestic jurisdiction.

21 (24) "Foreign jurisdiction" means a jurisdiction other than a domestic  
22 jurisdiction.

23 (25) "Forward" means an agreement, other than a future, to make or  
24 take delivery of or effect a cash settlement based on the actual or expected price,  
25 level, performance, or value of one or more underlying interests.

26 (26) "Future" means an agreement, traded on a qualified exchange or  
27 qualified foreign exchange, to make or take delivery of, or effect a cash  
28 settlement based on the actual or expected price, level, performance, or value  
29 of, one or more underlying interests.

1           **(27) "Government money market mutual fund" means a money market**  
2 **mutual fund that at all times:**

3           **(a) Invests only in obligations issued, guaranteed, or insured by the**  
4 **United States or collateralized repurchase agreements composed of these**  
5 **obligations.**

6           **(b) Qualifies for investment without a reserve under the Purposes and**  
7 **Procedures Manual of the NAIC Investment Analysis Office or any successor**  
8 **publication.**

9           **(28) "Government sponsored enterprise" means a:**

10           **(a) Governmental agency.**

11           **(b) Corporation, limited liability company, association, partnership, joint**  
12 **stock company, joint venture, trust, or other entity or instrumentality organized**  
13 **under the laws of any domestic jurisdiction to accomplish a public policy or**  
14 **other governmental purpose.**

15           **(29) "Guaranteed or insured", when used in connection with an**  
16 **obligation acquired pursuant to this Subpart, means that the guarantor or**  
17 **insurer has agreed to one of the following:**

18           **(a) Perform or insure the obligation of the obligor or purchase the**  
19 **obligation.**

20           **(b) Be unconditionally obligated until the obligation is repaid to maintain**  
21 **in the obligor a minimum net worth, fixed charge coverage, stockholders'**  
22 **equity, or sufficient liquidity to enable the obligor to pay the obligation in full.**

23           **(30) "Hedging transaction" means a derivative transaction which is**  
24 **entered into and maintained to reduce one of the following:**

25           **(a) The risk of a change in the value, yield, price, cash flow, or quantity**  
26 **of assets or liabilities which the insurer has acquired or incurred or anticipates**  
27 **acquiring or incurring.**

28           **(b) The currency exchange rate risk or the degree of exposure as to assets**  
29 **or liabilities which an insurer has acquired or incurred or anticipates acquiring**

1 or incurring.

2 (31) "Income" means, as to a security, interest, accrual of discount,  
3 dividends, or other distributions, such as rights, tax or assessment credits,  
4 warrants and distributions in kind.

5 (32) "Income generation transaction" means a derivative transaction  
6 involving the writing of covered call options, covered put options, covered caps,  
7 or covered floors that is intended to generate income or enhance return.

8 (33) "Insurance future" means a future relating to an index or pool that  
9 is based on insurance-related items.

10 (34) "Insurance futures option" means an option on an insurance future.

11 (35) "Investment company" means an investment company as defined  
12 in 15 U.S.C. 80a-3(a), as amended, and a person described in 15 U.S.C. 80a-3(c).

13 (36) "Investment company series" means an investment portfolio of an  
14 investment company that is organized as a series company and to which assets  
15 of the investment company have been specifically allocated.

16 (37) "Investment practices" means transactions of the types described  
17 in R.S. 22:601.11 and 601.14.

18 (38) "Investment subsidiary" means a subsidiary of an insurer engaged  
19 or organized to engage exclusively in the ownership and management of assets  
20 authorized as investments for the insurer if each subsidiary agrees to limit its  
21 investment in any asset so that its investments will not cause the amount of the  
22 total investment of the insurer to exceed any of the investment limitations or  
23 avoid any other provisions of this Subpart applicable to the insurer. As used in  
24 this Subsection, the total investment of the insurer shall include all of the  
25 following:

26 (a) Direct investment by the insurer in an asset.

27 (b) The insurer's proportionate share of an investment in an asset by an  
28 investment subsidiary of the insurer, which shall be calculated by multiplying  
29 the amount of the subsidiary's investment by the percentage of the insurer's

1 ownership interest in the subsidiary.

2 (39) "Limited liability company" means a business organization,  
3 excluding partnerships and ordinary business corporations, organized or  
4 operating under the laws of the United States or any state thereof that limits the  
5 personal liability of investors to the equity investment of the investor in the  
6 business entity.

7 (40) "Listed bond fund" means a mutual fund, or an exchange-traded  
8 fund, that at all times is listed as eligible for reporting as a long-term bond  
9 within the Purposes and Procedures of the NAIC Investment Analysis Office or  
10 any successor publication.

11 (41) "Market value" means:

12 (a) As to cash and letters of credit, the amounts thereof.

13 (b) As to a security as of any date, the price for the security on that date  
14 obtained from a generally recognized source or the most recent quotation from  
15 a generally recognized source or, to the extent no generally recognized source  
16 exists, the price for the security as determined in good faith by the parties to a  
17 transaction, plus accrued but unpaid income thereon to the extent not included  
18 in the price as of that date.

19 (42) "Money market mutual fund" means a mutual fund that meets the  
20 conditions of 17 CFR Part 270.2a-7, under 15 U.S.C. 80a-1 et seq., as amended  
21 or renumbered.

22 (43) "Mortgage loan" means an obligation secured by a mortgage, deed  
23 of trust, trust deed, or other consensual lien on real estate.

24 (44) "Mortgage-backed security" means debt obligations, including  
25 collateralized mortgage obligations, which represent claims to the cash flows  
26 from pools of mortgage loans made by financial institutions.

27 (45) "Multilateral development bank" means an international  
28 development organization of which the United States is a member.

29 (46) "Mutual fund" means an investment company or, in the case of an

1 investment company that is organized as a series company, an investment  
2 company series, that, in either case, is registered with the United States  
3 Securities and Exchange Commission under 15 U.S.C. 80a-1 et seq., as  
4 amended.

5 (47) "NAIC" means the National Association of Insurance  
6 Commissioners.

7 (48) "Obligation" means a bond, note, debenture, trust certificate  
8 including an equipment certificate, production payment, negotiable bank  
9 certificate of deposit, bankers' acceptance, and other evidence of indebtedness  
10 for the payment of money, or participations, certificates, or other evidences of  
11 an interest in any of the foregoing, whether constituting a general obligation of  
12 the issuer or payable only out of certain revenues or certain funds pledged or  
13 otherwise dedicated for payment.

14 (49) "Option" means an agreement giving the buyer the right to buy or  
15 receive, known as a "call option", sell or deliver, known as a "put option", enter  
16 into, extend or terminate or effect a cash settlement based on the actual or  
17 expected price, level, performance, or value of one or more underlying interests.

18 (50) "Person" means an individual, a business entity, a multilateral  
19 development bank, or a government or quasi-governmental body, such as a  
20 political subdivision or a government-sponsored enterprise.

21 (51) "Potential exposure" means the amount determined in accordance  
22 with the NAIC Annual Statement Instructions.

23 (52) "Preferred stock" means preferred, preference, or guaranteed stock  
24 of a business entity authorized to issue the stock, that has a preference in  
25 liquidation over the common stock of the business entity.

26 (53) "Qualified bank" means any of the following:

27 (a) A national bank, state bank, or trust company that at all times is no  
28 less than adequately capitalized as determined by standards adopted by United  
29 States banking regulators and that is either regulated by state banking laws or

1 is a member of the Federal Reserve System.

2 (b) A bank or trust company incorporated or organized under the laws  
3 of a country other than the United States that is regulated as a bank or trust  
4 company by that country's government or an agency thereof and that at all  
5 times is no less than adequately capitalized as determined by the standards  
6 adopted by international banking authorities.

7 (54) "Qualified business entity" means a business entity that is one of the  
8 following:

9 (a) An issuer of obligations or preferred stock that are rated one or two  
10 by the SVO or an issuer of obligations, preferred stock or derivative  
11 instruments that are rated the equivalent of one or two by the SVO, or by a  
12 nationally recognized statistical rating organization recognized by the SVO.

13 (b) A primary dealer in United States government securities, recognized  
14 by the Federal Reserve Bank of New York.

15 (55) "Qualified exchange" means any of the following:

16 (a) A securities exchange registered as a national securities exchange or  
17 a securities market regulated under 15 U.S.C. 78 et seq., as amended.

18 (b) A board of trade or commodities exchange designated as a contract  
19 market by the Commodity Futures Trading Commission or any successor  
20 thereof.

21 (c) Private Offerings, Resales, and Trading through Automated Linkages  
22 (PORTAL).

23 (d) A designated offshore securities market as defined in 17 CFR Part  
24 230.902(b), as amended.

25 (e) A qualified foreign exchange.

26 (56) "Qualified foreign exchange" means a foreign exchange, board of  
27 trade, or contract market located outside the United States, its territories, or  
28 possessions:

29 (a) That has received regulatory comparability relief under Commodity

1 Futures Trading Commission Rule 30.10, as set forth in Appendix C to Part 30  
2 of the Commodity Futures Trading Commission's Regulations, 17 CFR Part 30.

3 (b) That is, or its members are, subject to the jurisdiction of a foreign  
4 futures authority that has received regulatory comparability relief under  
5 Commodity Futures Trading Commission Rule 30.10, as set forth in Appendix  
6 C to Part 30 of the Commodity Futures Trading Commission's Regulations, 17  
7 CFR Part 30, as to futures transactions in the jurisdiction where the exchange,  
8 board of trade, or contract market is located.

9 (c) Upon which foreign stock index futures contracts are listed that are  
10 the subject of no-action relief issued by the Commodity Futures Trading  
11 Commission's Office of General Counsel, provided that an exchange, board of  
12 trade, or contract market that qualifies as a "qualified foreign exchange" only  
13 pursuant to this Subparagraph shall only be a "qualified foreign exchange" as  
14 to foreign stock index futures contracts that are the subject of no-action relief.

15 (57) "Real estate" means:

16 (a) Any of the following:

17 (i) Immovable property.

18 (ii) Interests in immovable property, such as leaseholds, minerals, and  
19 oil and gas that have not been separated from the underlying fee interest of the  
20 property.

21 (iii) Improvements and fixtures located on or in immovable property.

22 (iv) The seller's equity in a contract providing for a deed of real estate.

23 (b) As to a mortgage on a leasehold estate, real estate shall include the  
24 leasehold estate only if it has an unexpired term, including renewal options  
25 exercisable at the option of the lessee, extending beyond the scheduled maturity  
26 date of the obligation that is secured by a mortgage on the leasehold estate by  
27 a period equal to at least twenty percent of the original term of the obligation  
28 or ten years, whichever is greater.

29 (58) "Replication transaction" means a derivative transaction that is

1 intended to replicate the performance of one or more assets that an insurer is  
2 authorized to acquire pursuant to this Subpart. A derivative transaction that  
3 is entered into as a hedging transaction shall not be considered a replication  
4 transaction.

5 (59) "Repurchase transaction" means a transaction in which an insurer  
6 sells securities to a business entity and is obligated to repurchase the sold  
7 securities or equivalent securities from the business entity at a specified price,  
8 either within a specified period or upon demand.

9 (60) "Reverse repurchase transaction" means a transaction in which an  
10 insurer purchases securities from a business entity that is obligated to  
11 repurchase the purchased securities or equivalent securities from the insurer  
12 at a specified price, either within a specified period or upon demand.

13 (61) "Secured location" means the contiguous real estate owned by one  
14 person.

15 (62) "Securities lending transaction" means a transaction in which  
16 securities are loaned by an insurer to a business entity that is obligated to return  
17 the loaned securities or equivalent securities to the insurer, either within a  
18 specified period or upon demand.

19 (63) "Series company" means an investment company that is organized  
20 as a series company, as defined in 17 CFR 270.18f-2(a) adopted pursuant to 15  
21 U.S.C. 80a-1 et seq., as amended.

22 (64) "State" means a state, territory, or possession of the United States  
23 of America, the District of Columbia, or the Commonwealth of Puerto Rico.

24 (65) "Substantially similar securities" means securities that meet all  
25 criteria for substantially similar specified in the NAIC Accounting Practices and  
26 Procedures Manual, as amended, and in an amount that constitutes good  
27 delivery form as determined from time-to-time by the Public Securities  
28 Administration.

29 (66) "SVO" means the Securities Valuation Office of the NAIC or any



1 successor office established by the NAIC.

2 (67) "Swap" means an agreement to exchange or to net payments at one  
3 or more times based on the actual or expected price, level, performance, or  
4 value of one or more underlying interests.

5 (68) "Underlying interest" means the assets, liabilities, other interests,  
6 or a combination thereof underlying a derivative instrument, such as any one  
7 or more securities, currencies, rates, indices, commodities, or derivative  
8 instruments.

9 (69) "Warrant" means an instrument that gives the holder the right to  
10 purchase an underlying financial instrument at a given price and time or at a  
11 series of prices and times outlined in the warrant agreement. Warrants may be  
12 issued alone or in connection with the sale of other securities, for example, as  
13 part of a merger or recapitalization agreement, or to facilitate divestiture of the  
14 securities of another business entity.

15 §601.2. General investment qualifications

16 A. Insurers may acquire, hold, or invest in investments or engage in  
17 investment practices as set forth in this Subpart only. Investments not  
18 conforming to this Subpart shall not be admitted assets.

19 B. No security or other investment shall be eligible for purchase or  
20 acquisition pursuant to this Subpart unless it is interest bearing or interest  
21 accruing or dividend or income paying or eligible for dividends or income, is not  
22 then in default in any respect, and the insurer is entitled to receive for its  
23 exclusive account and benefit, the interest or income accruing thereon; except  
24 that it may acquire immovable property for occupancy by the insurer for home  
25 and branch office purposes. No security shall be eligible for purchase at a price  
26 above its market value.

27 C. Except as provided in Subsections D and E of this Section, an  
28 investment shall qualify pursuant to this Subpart if, on the date the insurer  
29 committed to acquire the investment or on the date of its acquisition, it would

1 have qualified pursuant to this Subpart. For the purposes of determining  
2 limitations contained in this Subpart, an insurer shall give appropriate  
3 recognition to any commitments to acquire investments.

4 D.(1) An investment held as an admitted asset by an insurer on  
5 August 1, 2021, which qualified pursuant to this Title shall remain qualified as  
6 an admitted asset pursuant to this Subpart.

7 (2) Each specific transaction constituting an investment practice of the  
8 type described in this Subpart that was lawfully executed by an insurer and was  
9 in effect on January 1, 2021, shall continue to be permitted pursuant to this  
10 Subpart until its expiration or termination under its terms.

11 E. An investment qualified, in whole or in part, for acquisition or holding  
12 as an admitted asset may be qualified or requalified at the time of acquisition  
13 or a later date, in whole or in part, pursuant to any other Section in this  
14 Subpart, if the relevant conditions contained in the other Section are satisfied  
15 at the time of qualification or requalification.

16 F. An insurer may acquire or hold as admitted assets any of the following  
17 investments that do not otherwise qualify as provided in this Subpart if the  
18 insurer has not acquired them for the purpose of circumventing any limitations  
19 contained in this Subpart, if the insurer acquires the investments in the  
20 following circumstances, and the insurer complies with the provisions of R.S.  
21 22:601.5 and 601.18 as to the investments:

22 (1) As payment on account of existing indebtedness or in connection with  
23 the refinancing, restructuring, or workout of existing indebtedness, if taken to  
24 protect the insurer's interest in that investment.

25 (2) As realization on collateral for an obligation.

26 (3) In connection with an otherwise qualified investment or investment  
27 practice, as interest on or a dividend or other distribution related to the  
28 investment or investment practice or in connection with the refinancing of the  
29 investment, in each case for no additional or only nominal consideration.

1           **(4) Under a lawful and bona fide agreement of recapitalization or**  
2           **voluntary or involuntary reorganization in connection with an investment held**  
3           **by the insurer.**

4           **(5) Under a bulk reinsurance, merger, or consolidation transaction**  
5           **approved by the commissioner if the assets constitute admissible investments for**  
6           **the ceding, merged, or consolidated companies.**

7           **G. An investment or portion of an investment acquired by an insurer**  
8           **pursuant to Subsection F of this Section shall become a nonadmitted asset three**  
9           **years, or five years in the case of mortgage loans and real estate, from the date**  
10           **of its acquisition, unless within that period the investment has become a**  
11           **qualified investment pursuant to this Subpart, except as provided in Subsection**  
12           **F of this Section, but an investment acquired under an agreement of bulk**  
13           **reinsurance, merger, or consolidation may be qualified for a longer period if**  
14           **provided in the plan for reinsurance, merger, or consolidation as approved by**  
15           **the commissioner. Upon application by the insurer and a showing that the**  
16           **nonadmission of an asset held pursuant to Subsection F of this Section would**  
17           **materially injure the interests of the insurer, the commissioner may extend the**  
18           **period for admissibility for an additional reasonable period. An aggrieved party**  
19           **affected by the commissioner's decision, act, or order may demand a hearing in**  
20           **accordance with R.S. 22:2191 et seq.**

21           **H. The investments of a foreign or alien insurer shall be as permitted by**  
22           **the laws of its domicile but shall be of a quality substantially as high as those**  
23           **required pursuant to this Subpart for similar funds of like domestic insurers.**

24           **I. Unless otherwise specified, an investment limitation computed on the**  
25           **basis of an insurer's admitted assets or capital and surplus shall relate to the**  
26           **amount required to be shown on the statutory balance sheet of the insurer most**  
27           **recently required to be filed with the commissioner.**

28           **J. An insurer shall maintain documentation demonstrating that**  
29           **investments were acquired in accordance with this Subpart and specifying the**

1 Section of this Subpart under which they were acquired.

2 K. An insurer shall not execute an agreement to purchase securities in  
3 advance of their issuance for resale to the public as part of a distribution of the  
4 securities by the issuer or otherwise guarantee the distribution, except that an  
5 insurer may acquire privately placed securities with registration rights.

6 L. Notwithstanding the provisions of this Subpart, the commissioner, for  
7 good cause, may order, pursuant to rules or regulations promulgated and  
8 adopted in accordance with the Administrative Procedure Act, an insurer to  
9 nonadmit, limit, dispose of, withdraw from, or discontinue an investment or  
10 investment practice. The authority of the commissioner under to this Subsection  
11 shall be in addition to any other authority of the commissioner.

12 M. Insurance futures and insurance futures options shall not be  
13 considered investments or investment practices for purposes of this Subpart.

14 N. The commissioner may retain at the insurer's expense attorneys,  
15 actuaries, accountants, and other experts not otherwise a part of the  
16 commissioner's staff as may be reasonably necessary to assist in reviewing the  
17 insurer's investments. These persons retained shall be under the direction and  
18 control of the commissioner and shall act in a purely advisory capacity.

19 O. If the commissioner determines that an insurer's investment practices  
20 do not comply with the provisions of this Subpart, the commissioner may, after  
21 notification to the insurer of the commissioner's findings, order the insurer to  
22 make changes necessary to comply with the provisions of this Subpart.

23 P. If the commissioner determines that by reason of the financial  
24 condition, current investment practice, or current investment plan of an  
25 insurer, the interests of insureds, creditors, or the general public are or may be  
26 endangered, the commissioner may impose reasonable additional restrictions  
27 upon the admissibility or valuation of investments or may impose restrictions  
28 on the investment practices of an insurer, including prohibition or divestment.

29 Q. The commissioner may count toward satisfaction of the minimum

1 asset requirement any assets in which an insurer is required to invest under the  
2 laws of a country other than the United States as a condition for doing business  
3 in that country if the commissioner determines that counting them does not  
4 endanger the interests of insureds, creditors, or the general public.

5 §601.3. Insurer investment policy

6 A. In acquiring, investing, exchanging, holding, selling, or managing  
7 investments, an insurer shall follow a written investment policy established by  
8 its board of directors which shall be reviewed and approved annually. There is  
9 no requirement for the form and substance of the investment policy, but it shall  
10 include written guidelines appropriate to the insurer's business as to all of the  
11 following:

12 (1) The policies, procedures, and controls covering all aspects of the  
13 investing function, including compliance with this Subpart.

14 (2) Quantified goals and objectives regarding the composition of classes  
15 of investments, including maximum internal limits.

16 (3) Periodic evaluation of the investment portfolio as to risk and reward  
17 characteristics.

18 (4) Professional standards for the individuals making day-to-day  
19 investment decisions to assure that investments are managed in an ethical and  
20 competent manner.

21 (5) The types of investments to be made and those to be avoided based  
22 on their risk and reward characteristics and the insurer's level of experience  
23 with the investments.

24 (6) The relationship of classes of investments to the insurer's insurance  
25 products and liabilities.

26 (7) The level of risk appropriate for the insurer given the level of  
27 capitalization and expertise available to the insurer.

28 (8) The evaluation and consideration of the following factors in  
29 determining whether an investment portfolio or investment policy is

- 1           appropriate:
- 2                   (a) General economic conditions.
- 3                   (b) Effects of inflation or deflation.
- 4                   (c) Tax consequences of investment decisions or strategies.
- 5                   (d) Fairness and reasonableness of the terms of an investment  
6 considering its probable risk and reward characteristics and relationship to the  
7 entire investment portfolio.
- 8                   (e) The diversification of the insurer's investments among the following  
9 items:
- 10                   (i) Individual investments.
- 11                   (ii) Classes of investments.
- 12                   (iii) Industry concentrations.
- 13                   (iv) Dates of maturity.
- 14                   (v) Geographic areas.
- 15                   (f) The quality and liquidity of investments in affiliates.
- 16                   (g) The exposure to the following investment risks, quantified in a  
17 manner consistent with the insurer's acceptable risk level identified in  
18 Paragraph (7) of this Subsection:
- 19                   (i) Liquidity.
- 20                   (ii) Credit and default.
- 21                   (iii) Systemic (market).
- 22                   (iv) Interest rate.
- 23                   (v) Call, prepayment, and extension.
- 24                   (vi) Currency.
- 25                   (vii) Foreign sovereign.
- 26                   (h) The amount of the insurer's assets, capital and surplus, premium  
27 writings, insurance in force, and other appropriate characteristics.
- 28                   (i) The amount and adequacy of the insurer's reported liabilities.
- 29                   (j) The relationship of the expected cash flows of the insurer's assets and

1 liabilities, and the risk of adverse changes in the insurer's assets and liabilities.

2 (k) The adequacy of the insurer's capital and surplus to secure the risks  
3 and liabilities of the insurer.

4 (l) Any other factors relevant to whether an investment is appropriate.

5 B. The investment policy or information related to the investment policy  
6 provided to the commissioner for review pursuant to this Subpart shall be  
7 considered confidential and exempt from the provisions of law relative to public  
8 records as provided in R.S. 44:4.1(B)(11) and shall not be subject to subpoena  
9 pursuant to R.S. 22:1984(D).

10 §601.4. Authorization of investments by the board of directors

11 A. Except as to the policy loans of a life insurer, investments acquired  
12 and held under this Subpart shall be acquired and held under the supervision  
13 and direction of the board of directors of the insurer. The board of directors  
14 shall evidence by formal resolution, at least annually, that it has determined  
15 whether all investments have been made in accordance with delegations,  
16 standards, limitations, and investment objectives prescribed by the board or a  
17 committee of the board charged with the responsibility to direct its investments.

18 B. At least quarterly, and more frequently if considered appropriate, the  
19 insurer's board of directors or a committee of the board of directors shall  
20 receive and review a summary report on the insurer's investment portfolio, its  
21 investment activities, and investment practices engaged in under its authority,  
22 in order to determine whether the investment activity of the insurer is consistent  
23 with its written plan.

24 C. In discharging its duties pursuant to this Section, the board of  
25 directors shall require that records of any authorizations or approvals, other  
26 documentation as the board may require, and reports of any action taken under  
27 authority delegated under the plan referred to in Subsection A of this Section  
28 shall be made available on a regular basis to the board of directors.

29 D. In discharging their duties pursuant to this Section, the board of

1 directors of an insurer shall perform their duties in good faith and with the  
2 degree of care that ordinarily prudent individuals in like positions would use  
3 under similar circumstances.

4 E. Investments shall be sufficient in value, liquidity, and diversity to  
5 assure the insurer's ability to meet its outstanding obligations based on  
6 reasonable assumptions as to new business production for current lines of  
7 business.

8 F. The insurer shall establish and implement internal controls and  
9 procedures to assure compliance with investment policies and procedures to  
10 assure that all the following occur:

11 (1) The insurer's investment staff and consultants are reputable and  
12 capable.

13 (2) Periodic evaluation and monitoring occur for assessing the  
14 effectiveness of investment policy and strategies.

15 (3) Management's performance is assessed in meeting the stated  
16 objectives of the investment policy.

17 (4) Appropriate analyses are undertaken of the degree to which asset  
18 cash flows are adequate to meet liability cash flows under different economic  
19 environments.

20 G. As to each such investment or loan, the insurer's records shall contain  
21 all the following:

22 (1) In the case of loans:

23 (a) The name of the borrower.

24 (b) The location and legal description of the property.

25 (c) A physical description and the appraised value of the security.

26 (d) The amount of the loan, rate of interest, and terms of repayment.

27 (2) In the case of securities:

28 (a) The name of the obligor and a description of the security.

29 (b) The amount invested.



1           (c) The rate of interest or dividend.

2           (d) The maturity and yield based upon the purchase price.

3           (3) In the case of real estate:

4           (a) The location and legal description of the property.

5           (b) A physical description and the appraised value.

6           (c) The purchase price and terms.

7           (4) In the case of all investments:

8           (a) The amount of expenses estimated, if details are not available, and  
9           commissions, if any are incurred on account of any investment or loan, and by  
10           whom and to whom payable if not covered by contracts with mortgage loan  
11           representatives or correspondents which are part of the insurer's records.

12           (b) The name of any officer or director of the insurer having any direct,  
13           indirect, or contingent interest in the securities or loan representing the  
14           investment, or in the assets of the person on whose behalf the investment or loan  
15           is made, and the nature of such interest.

16           §601.5. Valuation of investments

17           The value or amount of an investment acquired or held, or an investment  
18           practice engaged in, pursuant to this Subpart, unless otherwise specified in this  
19           Title, shall be the value at which assets of an insurer are required to be reported  
20           for statutory accounting purposes as determined in accordance with procedures  
21           prescribed in published accounting and valuation standards of the NAIC,  
22           including the Purposes and Procedures Manual of the NAIC Investment  
23           Analysis Office, the Valuation of Securities Manual, the Accounting Practices  
24           and Procedures Manual, the Annual Statement Instructions, or any successor  
25           valuation procedures officially adopted by the NAIC.

26           §601.6. General limitation on investment in obligations of a single person

27           A. Except as otherwise specified in this Subpart, no insurer shall acquire,  
28           except with the consent of the commissioner, an investment pursuant to this  
29           Subpart if, as a result of and after giving effect to the investment, the insurer

1 would hold more than five percent of its admitted assets in investments of all  
2 kinds issued, assumed, accepted, insured, or guaranteed by a single person.

3 B. The limitations of Subsection A of this Section shall not apply to the  
4 following items:

5 (1) Investments issued, assumed, guaranteed, or insured by the United  
6 States, or a government sponsored enterprise of the United States, if the  
7 instruments are otherwise backed or supported by the full faith and credit of  
8 the United States.

9 (2) Investments in, or loans upon the security of, general obligations of  
10 any state or territory of the United States, or the District of Columbia.

11 (3) Investments issued by a listed bond fund.

12 (4) Investments issued by a multilateral development bank pursuant to  
13 R.S. 22:601.12(E).

14 (5) Mortgage loans as provided in R.S. 22:601.9.

15 (6) Investments in foreign securities pursuant to R.S. 22:601.12(D).

16 (7) Policy loans made pursuant to R.S. 22:601.16(3).

17 (8) Subsidiaries authorized under R.S. 22:691.3.

18 (9) Mutual funds and exchange-traded funds pursuant to R.S.  
19 22:601.8(C)(2).

20 C. Asset-backed securities shall not be subject to the limitations of  
21 Subsection A of this Section. No insurer shall acquire an asset-backed security  
22 if, as a result of and after giving effect to the investment, the aggregate amount  
23 of asset-backed securities secured by or evidencing an interest in a single asset  
24 or single pool of assets held by a trust or other business entity, then held by the  
25 insurer would exceed five percent of its admitted assets.

26 §601.7. Bonds

27 A. Notwithstanding the limitations contained in R.S. 22:601.6, an insurer  
28 may acquire obligations issued, assumed, guaranteed, or insured by the  
29 following:

1           **(1) The United States.**

2           **(2) A government-sponsored enterprise of the United States, if the**  
3 **instruments of the government-sponsored enterprise are assumed, guaranteed,**  
4 **or insured by the United States or are otherwise backed or supported by the full**  
5 **faith and credit of the United States.**

6           **(3) Mortgage-backed securities, including collateralized mortgage**  
7 **obligations, backed by mortgages guaranteed by federal and federally**  
8 **sponsored agencies such as the Government National Mortgage Association,**  
9 **Federal National Mortgage Association, or Federal Home Loan Mortgage**  
10 **Corporation and loans against manufactured or mobile homes or collateralized**  
11 **debt obligations backed by mortgage-backed securities. Mortgage-backed**  
12 **securities includes prime, subprime, and Alt-A mortgages, as well as**  
13 **home-equity loans, home-equity lines of credit and Re-REMICs. Included are**  
14 **bonds issued and guaranteed by, or only guaranteed by, the respective agency,**  
15 **and loans guaranteed by the United States Department of Veteran Affairs or the**  
16 **United States Department of Agriculture's Rural Development Housing and**  
17 **Community Facilities Programs.**

18           **(4) A state, if the instruments are general obligations of the state.**

19           **(5) Student loan notes or other obligations which are guaranteed or**  
20 **insured as to principal by the Louisiana Student Financial Assistance**  
21 **Commission or any other authorized agency or instrumentality of the state of**  
22 **Louisiana or by any authorized agency or instrumentality of the United States**  
23 **government.**

24           **(6) Federal farm loan bonds issued by federal land banks.**

25           **(7) Federal intermediate credit banks.**

26           **(8) Banks for cooperatives.**

27           **(9) Listed bond funds.**

28           **B. An insurer may acquire mortgage-backed securities, not backed by**  
29 **federal and federally sponsored agencies, originated in the United States, where**

1 the collateral consists of loans pertaining to nonmultifamily homes, including  
2 prime, subprime, and Alt-A mortgages, as well as home-equity loans,  
3 home-equity lines of credit and Re-REMICs. The acquisition of any one security  
4 shall not exceed ten percent of admitted assets, nor shall an insurer invest in  
5 aggregate more than forty-five percent of its admitted assets in securities  
6 described in this Subsection and R.S. 22:601.10(B).

7 C. An insurer may acquire equipment trust obligations or certificates,  
8 or pass-through certificates, which are adequately secured evidencing an  
9 interest in equipment operated wholly or in part within the United States and  
10 have a right to receive determined portions of rental, purchase, or other fixed  
11 obligatory payments for the use or purchase of the equipment. Obligations,  
12 certificates, or pass-through certificates hereunder shall have a minimum  
13 quality rating by the NAIC's SVO of one or two.

14 D. Any insurer may acquire asset-backed securities having a current and  
15 continuing minimum quality rating of NAIC one or two by one or more of the  
16 nationally recognized securities rating organizations or a rating by the NAIC's  
17 SVO. No domestic insurer shall invest in excess of five percent of its admitted  
18 assets in any one issue of asset-backed obligations.

19 E. In addition to those investments eligible pursuant to Subsections A,  
20 B, C, and D of this Section, an insurer may acquire bond obligations that are  
21 not foreign investments.

22 §601.8. Equity interests

23 A. An insurer may acquire preferred stocks in any United States  
24 business entity if, as a result of and after giving effect to the investment:

25 (1) Securities of a single issuer and its affiliates, other than the  
26 government of the United States and subsidiaries authorized pursuant to R.S.  
27 22:691.3, shall not exceed three percent of admitted assets.

28 (2) The aggregate amount of preferred stocks then held by the insurer  
29 under this Subsection does not exceed twenty-five percent of its admitted assets.

1           **B. An insurer may acquire equity interests in solvent business entities**  
2 **meeting any of the following criteria:**

3           **(1) Domiciled in the United States.**

4           **(2) Domiciled in a foreign jurisdiction if listed on a qualified exchange.**

5           **(3) Permitted pursuant to R.S. 22:601.12.**

6           **C. An insurer shall not acquire an investment pursuant to this Section**  
7 **if, as a result of and after giving effect to the investment:**

8           **(1) The aggregate amount of investments then held by the insurer under**  
9 **this Section, excluding exchange-traded funds and mutual funds, would exceed**  
10 **fifty percent of its admitted assets, or the amount of equity interests then held**  
11 **by the insurer that are not listed on a qualified exchange would exceed five**  
12 **percent of its admitted assets.**

13           **(2) The aggregate amount of exchange-traded fund and mutual fund**  
14 **investments then held by the insurer under this Section would exceed the**  
15 **greater of fifty percent of its admitted assets or one hundred percent of its**  
16 **surplus as regards policyholders. The investment in any one fund shall be**  
17 **limited to ten percent of admitted assets.**

18           **D. If the commissioner considers it desirable in order to properly**  
19 **evaluate the investment portfolio of an insurer, the commissioner may require**  
20 **that investments in exchange-traded funds, mutual funds, pooled investment**  
21 **vehicles, or other investment companies be treated for purposes of this Subpart**  
22 **as if the investor owned directly its proportional share of the assets owned by**  
23 **the exchange-traded fund, mutual fund, pooled investment vehicle, or**  
24 **investment company.**

25 **§601.9. Mortgage loans**

26           **A. An insurer may acquire, either directly, indirectly through limited**  
27 **partnership interests and general partnership interests not otherwise**  
28 **prohibited, joint ventures, stock of an investment subsidiary or membership**  
29 **interests in a limited liability company, trust certificates, or other similar**

1 instruments, obligations secured by mortgages on real estate, including  
2 leasehold estates in improved unencumbered immovable property having an  
3 unexpired term of not less than twenty-one years inclusive of the term which  
4 may be provided by an enforceable option of renewal, situated within the United  
5 States. A mortgage loan which is secured by other than a first lien is authorized  
6 under this Section if the insurer is the holder of the first lien. The obligations  
7 held by the insurer and any obligations with an equal lien priority, shall not, at  
8 the time of acquisition of the obligation, exceed:

9 (1) Eighty percent of the fair market value of the real estate, if the  
10 mortgage loan requires immediate scheduled payment in periodic installments  
11 of principal and interest, has an amortization period of thirty years or less and  
12 periodic payments made no less frequently than annually. Each periodic  
13 payment shall be sufficient to assure that at all times the outstanding principal  
14 balance of the mortgage loan shall be not greater than the outstanding principal  
15 balance that would be outstanding under a mortgage loan with the same  
16 original principal balance, with the same interest rate and requiring equal  
17 payments of principal and interest with the same frequency over the same  
18 amortization period. Mortgage loans permitted pursuant to this Subsection are  
19 permitted notwithstanding the fact that they provide for a payment of the  
20 principal balance prior to the end of the period of amortization of the loan.

21 (a) The fair market value of the real estate shall be substantiated with an  
22 appraisal by a recognized and experienced real estate appraiser who is a  
23 member of a recognized appraisal organization, which the commissioner of  
24 insurance may accept if he is satisfied that the appraiser is competent and  
25 disinterested.

26 (b) The amount of an obligation required to be included in the  
27 calculation of the loan-to-value ratio may be reduced to the extent the obligation  
28 is insured by the Federal Housing Administration or guaranteed by the  
29 Administrator of Veterans Affairs, or their successors.

1           (2) As used in this Subsection, "improved unencumbered immovable  
2           property" means all farmland which has been reclaimed and is used for the  
3           purpose of husbandry, whether for tillage, pasture, or improved forestation,  
4           and all other immovable property on which permanent buildings suitable for  
5           residence or commercial use are situated, including but not limited to  
6           condominium property, as defined in R.S. 9:1122.101 et seq.

7           B. These structures shall be insured for an amount not less than the  
8           appraised value of the structures, and the proceeds of the policy shall be  
9           payable to and held by the company or a trustee for its benefit. The insurance  
10          shall be continued in force for the duration of the loan.

11          C. A mortgage loan that is held by an insurer under R.S. 22:601.2(D) or  
12          acquired pursuant to this Section and is restructured in a manner that meets the  
13          requirements of a restructured mortgage loan in accordance with the NAIC  
14          Accounting Practices and Procedures Manual or its successor publication shall  
15          continue to qualify as a mortgage loan under this Subpart.

16          D. An insurer shall not acquire an investment pursuant to this Section  
17          if, as a result of and after giving effect to the investment, the aggregate amount  
18          of all investments then held by the insurer pursuant to this Section would exceed  
19          five percent of its admitted assets in mortgage loans covering any one secured  
20          location.

21          E. No insurer shall acquire an investment pursuant to this Section or  
22          R.S. 22:601.10(B) if, as a result of and after giving effect to the investment and  
23          any guarantees made by the insurer in connection with the investment, the  
24          aggregate amount of all investments then held by the insurer pursuant to this  
25          Section and R.S. 22:601.10(B) plus the guarantees then outstanding would  
26          exceed forty-five percent of its admitted assets.

27          F. Notwithstanding any other provision of law to the contrary, a  
28          domestic insurer is entitled to the same benefits and exemptions relative to state  
29          usury laws, specifically R.S. 9:3500 and 3503, granted to banks and savings and

1 loan associations pursuant to the 1980 Depository Institutions Deregulation and  
2 Monetary Control Act, 12 U.S.C.A. 1735f-7, as amended. The rate of interest  
3 shall be fixed in writing, and testimonial proof of it shall not be admitted in any  
4 case.

5 §601.10. Real estate

6 A. An insurer may acquire, manage, and dispose of real estate for the  
7 convenient accommodation of the insurer's business operations, which may  
8 include its affiliates, including home office, branch office, and field office  
9 operations.

10 (1) An insurer authorized to transact insurance in a foreign country may  
11 acquire and hold immovable property required for the convenient  
12 accommodation of the transacting of its own business in any such country and  
13 the property may include additional space to be rented or leased to third parties  
14 for the purpose of producing income to help defray the cost of acquisition,  
15 construction, and maintenance of the building, as well as a return on the  
16 investment in addition to that derived from the company's own use of a portion  
17 of the property. The investment in a building shall not exceed ten percent of the  
18 company's assets in that country.

19 (2) No insurer shall acquire real estate if, as a result of and after giving  
20 effect to the acquisition, the aggregate amount of all real estate then held by the  
21 insurer pursuant to this Section would exceed ten percent of its admitted assets.

22 (3) Upon approval by the commissioner, additional amounts of real  
23 estate may be acquired pursuant to this Section upon a determination by the  
24 commissioner that the amount represented by the percentage of its admitted  
25 assets is insufficient to provide convenient accommodation for the insurer's  
26 business and would not render the insurer in hazardous financial condition.

27 B.(1) An insurer may acquire real estate situated in the United States  
28 that is income producing or after suitable improvement within five years from  
29 acquisition can reasonably be expected to produce income.



1           (2) The insurer may thereafter own, hold, maintain, and manage the real  
2           estate so acquired and the improvements thereon and collect or receive income  
3           therefrom and may grant, sell, or convey the same in whole or in part.  
4           Ownership, management, and control shall be entire and complete by one  
5           insurer unless shared by two or more insurers subject to this Title or unless the  
6           insurer is a general partner under agreements that will assure concerted action  
7           in the management and control of the property and in case of the insolvency of  
8           any participating insurer.

9           C.(1) No insurer shall acquire an investment pursuant to this Section if,  
10          as a result of and after giving effect to the investment and any outstanding  
11          guarantees made by the insurer in connection with the investment, the  
12          aggregate amount of investments then held by the insurer plus the guarantees  
13          then outstanding would exceed one of the following:

14           (a) Five percent of its admitted assets in any one parcel or group of  
15           contiguous parcels of real estate.

16           (b) Fifteen percent of its admitted assets in the aggregate, but not more  
17           than five percent of its admitted assets as to properties that are to be improved  
18           or developed.

19           (2) No insurer shall acquire an investment pursuant to R.S. 22:601.9 or  
20           Subsection B of this Section if, as a result of and after giving effect to the  
21           investment and any guarantees it has made in connection with the investment,  
22           the aggregate amount of all investments then held by the insurer pursuant to  
23           R.S. 22:601.9 and Subsection B of this Section plus the guarantees then  
24           outstanding would exceed forty-five percent of its admitted assets.

25           D. Orders or decisions of the commissioner of insurance shall be subject  
26           to review as provided in R.S. 22:2191 et seq.

27           §601.11. Securities transactions; lending, repurchase, reverse repurchase,  
28           dollar roll

29           An insurer may execute securities lending, repurchase, reverse

1        repurchase, and dollar roll transactions with business entities having a net  
2        worth of at least one hundred million dollars, subject to the following  
3        requirements:

4                (1) The insurer's board of directors shall adopt a written plan that is  
5                consistent with the requirements of the written plan in R.S. 22:601.3(A) that  
6                specifies guidelines and objectives to be followed, including but not limited to  
7                the following:

8                        (a) A description of how cash received will be invested or used for  
9                        general corporate purposes of the insurer.

10                      (b) Operational procedures to manage interest rate risk, counterparty  
11                      default risk, the conditions under which proceeds from repurchase transactions  
12                      may be used in the ordinary course of business, and the use of acceptable  
13                      collateral in a manner that reflects the liquidity needs of the transaction.

14                      (c) The extent to which the insurer may engage in these transactions.

15                (2) The insurer shall execute a written agreement for all transactions  
16                authorized in this Section other than dollar roll transactions. The written  
17                agreement shall require that each transaction terminate no more than one year  
18                from its inception or upon the earlier demand of the insurer. The agreement  
19                shall be with the business entity counterparty, but for securities lending  
20                transactions, the agreement may be with an agent acting on behalf of the  
21                insurer, if the agent is a qualified business entity, and if the agreement does all  
22                of the following:

23                      (a) Requires the agent to execute separate agreements with each  
24                      counterparty that are consistent with the requirements of this Section.

25                      (b) Prohibits securities lending transactions under the agreement with  
26                      the agent or its affiliates.

27                (3) Cash received in a transaction under this Section shall be invested in  
28                accordance with this Subpart and in a manner that recognizes the liquidity  
29                needs of the transaction or used by the insurer for its general corporate

1 purposes. While the transaction remains outstanding, the insurer, its agent, or  
2 custodian shall maintain, as to acceptable collateral received in a transaction  
3 under this Section, either physically or through the book entry systems of the  
4 Federal Reserve, Depository Trust Company, Participants Trust Company, or  
5 other securities depositories approved by the commissioner:

6 (a) Possession of the acceptable collateral.

7 (b) A perfected security interest in the acceptable collateral.

8 (c) In the case of a jurisdiction outside of the United States, title to, or  
9 rights of a secured creditor to, the acceptable collateral.

10 (4) The limitations of R.S. 22:601.6 and 601.12 shall not apply to the  
11 business entity counterparty exposure created by transactions under this  
12 Section. For purposes of calculations made to determine compliance with this  
13 Subsection, no effect will be given to the insurer's future obligation to resell  
14 securities, in the case of a reverse repurchase transaction, or to repurchase  
15 securities, in the case of a repurchase transaction. No insurer shall execute a  
16 transaction under this Section if, as a result of and after giving effect to the  
17 transaction, any of the following occur:

18 (a) The aggregate amount of securities then loaned, sold to, or purchased  
19 from any one business entity counterparty under this Section would exceed five  
20 percent of its admitted assets. In calculating the amount sold to or purchased  
21 from a business entity counterparty under repurchase or reverse repurchase  
22 transactions, effect may be given to netting provisions under a master written  
23 agreement.

24 (b) The aggregate amount of all securities then loaned, sold to, or  
25 purchased from all business entities under this Section would exceed forty  
26 percent of its admitted assets, but the limitation of this Paragraph shall not  
27 apply to reverse repurchase transactions if the borrowing is used to meet  
28 operational liquidity requirements resulting from an officially declared  
29 catastrophe and subject to a plan approved by the commissioner.

1           (5) In a securities lending transaction, the insurer shall receive  
2           acceptable collateral having a market value as of the transaction date at least  
3           equal to one hundred two percent of the market value of the securities loaned  
4           by the insurer in the transaction as of that date. If at any time the market value  
5           of the acceptable collateral is less than the market value of the loaned securities,  
6           the business entity counterparty shall be obligated to deliver additional  
7           acceptable collateral, the market value of which, together with the market value  
8           of all acceptable collateral then held in connection with the transaction, at least  
9           equals one hundred two percent of the market value of the loaned securities.

10           (6) In a repurchase transaction, other than a dollar roll transaction, the  
11           insurer shall receive acceptable collateral having a market value as of the  
12           transaction date at least equal to ninety-five percent of the market value of the  
13           securities transferred by the insurer in the transaction as of that date. If at any  
14           time the market value of the acceptable collateral is less than ninety-five percent  
15           of the market value of the securities so transferred, the business entity  
16           counterparty shall be obligated to deliver additional acceptable collateral, the  
17           market value of which, together with the market value of all acceptable  
18           collateral then held in connection with the transaction, at least equals  
19           ninety-five percent of the market value of the transferred securities.

20           (7) In a dollar roll transaction, the insurer shall receive cash in an  
21           amount at least equal to the market value of the securities transferred by the  
22           insurer in the transaction as of the transaction date.

23           (8) In a reverse repurchase transaction, the insurer shall receive as  
24           acceptable collateral transferred securities having a market value at least equal  
25           to one hundred two percent of the purchase price paid by the insurer for the  
26           securities. If at any time the market value of the acceptable collateral is less  
27           than one hundred percent of the purchase price paid by the insurer, the  
28           business entity counterparty shall be obligated to provide additional acceptable  
29           collateral, the market value of which, together with the market value of all

1 acceptable collateral then held in connection with the transaction, at least equals  
2 one hundred two percent of the purchase price. No securities acquired by an  
3 insurer in a reverse repurchase transaction shall be sold in a repurchase  
4 transaction, loaned in a securities lending transaction or otherwise pledged.

5 §601.12. Foreign investments and foreign currency exposure

6 A. An insurer may acquire obligations of the government of the  
7 Dominion of Canada or of Canadian provinces or municipalities, and in  
8 obligations of Canadian corporations as follows:

9 (1) Obligations issued, assumed, guaranteed, or insured by Canada, or  
10 a government sponsored enterprise of Canada, if the instruments of the  
11 government sponsored enterprise are assumed, guaranteed, or insured by  
12 Canada or are otherwise backed or supported by the full faith and credit of  
13 Canada. No insurer shall acquire an instrument under this Subsection if, as a  
14 result of and after giving effect to the investment, the aggregate amount of  
15 investments then held by the insurer under this Subsection would exceed forty  
16 percent of its admitted assets.

17 (2) No insurer shall acquire a Canadian investment authorized by this  
18 Subsection, if as a result of and after giving effect to the investment, the  
19 aggregate amount of Canadian investments not acquired under Paragraph (1)  
20 of this Subsection then held by the insurer would exceed twenty-five percent of  
21 its admitted assets.

22 B. In addition to the investments acquired under Subsection A of this  
23 Section, an insurer may acquire foreign investments, or engage in investment  
24 practices with persons of or in foreign jurisdictions, of substantially the same  
25 types as those that an insurer is permitted to acquire under this Subpart, other  
26 than of the type permitted pursuant to R.S. 22:601.13, if, as a result and after  
27 giving effect to the investment, both of the following conditions are met:

28 (1) The aggregate amount of foreign investments then held by the insurer  
29 under this Subsection does not exceed twenty percent of its admitted assets.

1           (2) The aggregate amount of foreign investments then held by the insurer  
2           under this Subsection in a single foreign jurisdiction does not exceed ten percent  
3           of its admitted assets as to a foreign jurisdiction that has a sovereign debt rating  
4           of SVO one or five percent of its admitted assets as to any other foreign  
5           jurisdiction.

6           C. An insurer may acquire investments, or engage in investment  
7           practices denominated in foreign currencies, whether or not they are foreign  
8           investments acquired pursuant to Subsections A and B of this Section, or  
9           additional foreign currency exposure as a result of the termination or expiration  
10           of a hedging transaction with respect to investments denominated in a foreign  
11           currency, if all of the following apply:

12           (1) The aggregate amount of investments then held by the insurer under  
13           this Subsection denominated in foreign currencies does not exceed ten percent  
14           of its admitted assets.

15           (2) The aggregate amount of investments then held by the insurer under  
16           this Subsection denominated in the foreign currency of a single foreign  
17           jurisdiction does not exceed ten percent of its admitted assets as to a foreign  
18           jurisdiction that has a sovereign debt rating of SVO one or three percent of its  
19           admitted assets as to any other foreign jurisdiction.

20           (3) No investment shall be considered denominated in a foreign currency  
21           if the acquiring insurer enters into one or more contracts in transactions  
22           permitted pursuant to R.S. 22:601.14 and the business entity counterparty  
23           agrees under the contract or contracts to exchange all payments made on the  
24           foreign currency denominated investment for United States currency at a rate  
25           which effectively insulates the investment cash flows against future changes in  
26           currency exchange rates during the period the contract or contracts are in  
27           effect.

28           D. In addition to investments permitted pursuant to Subsections A, B,  
29           and C of this Section, an insurer authorized to do business in a foreign

1 jurisdiction, or that has outstanding insurance, annuity, or reinsurance  
2 contracts on lives or risks resident or located in that foreign jurisdiction and  
3 denominated in foreign currency of that jurisdiction, may acquire foreign  
4 investments respecting that foreign jurisdiction, and may acquire investments  
5 denominated in the currency of that jurisdiction; however, investments made  
6 pursuant to this Subsection in obligations of foreign governments, their political  
7 subdivisions and government sponsored enterprises shall not be subject to the  
8 limitations of R.S. 22:601.6. The aggregate amount of investments acquired by  
9 the insurer pursuant to this Subsection shall not exceed the greater of either of  
10 one of the following:

11 (1) The amount the insurer is required by the law of the foreign  
12 jurisdiction to invest in the foreign jurisdiction.

13 (2) One hundred twenty percent of the amount of its reserves, net of  
14 reinsurance, and other obligations under the contracts on lives or risks resident  
15 or located in the foreign jurisdiction.

16 E.(1) An insurer may acquire obligations issued by the following  
17 international development organizations. No insurer shall acquire an  
18 instrument of any one of the following organizations if, as a result of and after  
19 giving effect to the investment, the aggregate amount of investments then held  
20 in any one organization pursuant to this Subsection would exceed ten percent  
21 of its admitted assets:

22 (a) African Development Bank.

23 (b) Asian Development Bank.

24 (c) Inter-American Development Bank.

25 (d) International Bank for Reconstruction and Development.

26 (2) A domestic insurer may invest any of its funds in bonds, debentures,  
27 notes, or other similar obligations that are not in default and are issued in the  
28 United States market, denominated in United States dollars, and are the direct  
29 legal obligation of a foreign nation that is a member of the Organisation for

1 Economic Co-operation and Development, for which investments in or business  
2 transactions with are not prohibited or restricted by any law, regulation, or rule  
3 of the United States or this state, and for which the full faith and credit of such  
4 nation has been pledged for the payment of principal and interest, but only if  
5 the foreign nation has not defaulted and has met its payment obligations in a  
6 timely manner on all similar obligations for a period of at least twenty-five  
7 years immediately preceding. Additionally, the debt of the issuing country shall  
8 be rated at least A- or better by S&P Global Ratings or A3 or better by  
9 Moody's, Inc. or an equivalent investment grade by a securities ratings  
10 organization accepted by the National Association of Insurance Commissioners.  
11 The total investment in such foreign securities at any one time shall not exceed  
12 five percent of an insurer's admitted assets.

13 F. Investments acquired pursuant to this Section shall be aggregated  
14 with investments of the same types made under all other Sections of this  
15 Subpart, and in a similar manner, for purposes of determining compliance with  
16 the limitations, if any, contained in the other Sections.

17 §601.13. Insurer investment pools

18 A. An insurer may acquire investments in investment pools that:

19 (1) Invest in only one of the following:

20 (a) Obligations that are rated one or two by the SVO or have an  
21 equivalent of an SVO one or two rating, or, in the absence of a one or two rating  
22 or equivalent rating, the issuer has outstanding obligations with an SVO one or  
23 two or equivalent rating, by a nationally recognized statistical rating  
24 organization recognized by the SVO and have either of the following:

25 (i) A remaining maturity of three hundred ninety-seven days or less or  
26 a put option that entitles the holder to receive the principal amount of the  
27 obligation which put option may be exercised through maturity at specified  
28 intervals not exceeding three hundred ninety-seven days.

29 (ii) A remaining maturity of three years or less and a floating interest



1 rate that resets at least quarterly on the basis of a current short-term index,  
2 such as federal funds, prime rate, treasury bills, London InterBank Offered  
3 Rate, or commercial paper, and is subject to no maximum limit, if the  
4 obligations do not have an interest rate that varies inversely to market interest  
5 rate changes.

6 (b) Government money market mutual funds.

7 (c) Securities lending, repurchase, and reverse repurchase transactions  
8 that meet all the requirements of R.S. 22:601.11, except the quantitative  
9 limitations of R.S. 22:601.11(4).

10 (2) Invest in only investments which an insurer may acquire pursuant to  
11 this Subpart, if the insurer's proportionate interest in the amount invested in  
12 these investments does not exceed the applicable limits of this Subpart.

13 B. For an investment in an investment pool to be qualified under this  
14 Subpart, the investment pool shall not do any of the following:

15 (1) Acquire securities issued, assumed, guaranteed or insured by the  
16 insurer or an affiliate of the insurer.

17 (2) Borrow or incur any indebtedness for borrowed money, except for  
18 securities lending and repurchase transactions that meet the requirements of  
19 R.S. 22:601.11, except the quantitative limitations of R.S. 22:601.11(4).

20 (3) Permit the aggregate value of securities then loaned or sold to,  
21 purchased from, or invested in any one business entity pursuant to this Section  
22 to exceed ten percent of the total assets of the investment pool.

23 C. The limitations of R.S. 22:601.6 shall not apply to an insurer's  
24 investment in an investment pool. No insurer shall acquire an investment in an  
25 investment pool under this Section if, as a result of and after giving effect to the  
26 investment, the aggregate amount of investments then held by the insurer  
27 pursuant to this Section would do any of the following:

28 (1) In any one investment pool would exceed ten percent of its admitted  
29 assets.

1           (2) In all investment pools investing in investments permitted pursuant  
2 to Paragraph (A)(2) of this Section would exceed twenty-five percent of its  
3 admitted assets.

4           (3) In all investment pools would exceed thirty-five percent of its  
5 admitted assets.

6           D. For an investment in an investment pool to be qualified under this  
7 Subpart, the manager of the investment pool shall meet all of the following  
8 requirements:

9           (1) Be organized under the laws of the United States or a state and  
10 designated as the pool manager in a pooling agreement.

11           (2) Be the insurer, an affiliated insurer or a business entity affiliated with  
12 the insurer, a qualified bank, a business entity registered pursuant to 15 U.S.C.  
13 80b-1 et seq., as amended or, in the case of a reciprocal insurer or  
14 interinsurance exchange, its attorney-in-fact, or in the case of a United States  
15 branch of an alien insurer, its United States manager or affiliates or subsidiaries  
16 of its United States manager.

17           (3) Compile and maintain detailed accounting records setting forth all  
18 of the following:

19           (a) The cash receipts and disbursements reflecting each participant's  
20 proportionate investment in the investment pool.

21           (b) A complete description of all underlying assets of the investment pool,  
22 including amount, interest rate, maturity date, if any, and other appropriate  
23 designations.

24           (c) Other records that allow third parties to daily verify each  
25 participant's investment in the investment pool.

26           (4) Maintain the assets of the investment pool in one or more accounts,  
27 in the name of or on behalf of the investment pool, under a custody agreement  
28 with a qualified bank. The custody agreement shall do all of the following:

29           (a) State and recognize the claims and rights of each participant.

1           **(b) Acknowledge that the underlying assets of the investment pool are**  
2           **held solely for the benefit of each participant in proportion to the aggregate**  
3           **amount of its investments in the investment pool.**

4           **(c) Contain an agreement that the underlying assets of the investment**  
5           **pool shall not be commingled with the general assets of the custodian qualified**  
6           **bank or any other person.**

7           **E. The pooling agreement for each investment pool shall be in writing**  
8           **and shall provide all of the following items:**

9           **(1) An insurer and its affiliated insurers or, in the case of an investment**  
10           **pool investing solely in investments permitted pursuant to Paragraph (A)(1) of**  
11           **this Section, the insurer and its subsidiaries, affiliates, or any pension or profit**  
12           **sharing plan of the insurer, its subsidiaries, and affiliates or, in the case of a**  
13           **United States branch of an alien insurer, affiliates, or subsidiaries of its United**  
14           **States manager, shall, at all times, hold one hundred percent of the interests in**  
15           **the investment pool.**

16           **(2) No underlying assets of the investment pool shall be commingled with**  
17           **the general assets of the pool manager or any other person.**

18           **(3) In proportion to the aggregate amount of each pool participant's**  
19           **interest in the investment pool, the following shall apply:**

20           **(a) Each participant owns an undivided interest in the underlying assets**  
21           **of the investment pool.**

22           **(b) The underlying assets of the investment pool are held solely for the**  
23           **benefit of each participant.**

24           **(4) A participant, or in the event of the participant's insolvency,**  
25           **bankruptcy or receivership, its trustee, receiver, or other successor-in-interest,**  
26           **may withdraw all or any portion of its investment from the investment pool**  
27           **under the terms of the pooling agreement. The investment shall be considered**  
28           **an asset pursuant to R.S. 22:2034.**

29           **(5) Withdrawals may be made on demand without penalty or other**

1 assessment on any business day, but settlement of funds shall occur within a  
2 reasonable and customary period thereafter, not to exceed five business days.  
3 Distributions under this Paragraph shall be calculated in each case net of all  
4 then applicable fees and expenses of the investment pool. The pooling agreement  
5 shall provide that the pool manager shall distribute to a participant, at the  
6 discretion of the pool manager, any of the following:

7 (a) In cash, the then fair market value of the participant's pro rata share  
8 of each underlying asset of the investment pool.

9 (b) In kind, a pro rata share of each underlying asset.

10 (c) In a combination of cash and in-kind distributions, a pro rata share  
11 in each underlying asset.

12 (6) The pool manager shall make the records of the investment pool  
13 available for inspection by the commissioner.

14 F. Transactions between the pool and its participants shall not be subject  
15 to R.S. 22:691.7(A)(2). Investment activities of pools and transactions between  
16 pools and participants shall be reported annually in the registration statement  
17 required by R.S. 22:691.6.

18 §601.14. Derivative transactions

19 An insurer may, directly or indirectly through an investment subsidiary,  
20 engage in derivative transactions pursuant to this Section by meeting all of the  
21 following conditions:

22 (1) An insurer may use derivative instruments under this Section to  
23 engage in hedging transactions and certain income generation transactions, as  
24 these terms may be further defined in regulations promulgated by the  
25 commissioner.

26 (2) An insurer shall be able to demonstrate to the commissioner the  
27 intended hedging characteristics and the ongoing effectiveness of the derivative  
28 transaction or combination of the transactions through cash flow testing or  
29 other appropriate analyses.

1                   **(3) The counterparty shall have a minimum quality rating of one or two**  
2 **by the SVO.**

3                   **(4) Before engaging in a derivative transaction, an insurance company**  
4 **shall establish written guidelines, approved by the commissioner that shall be**  
5 **used for effecting and maintaining derivative transactions. The guidelines shall**  
6 **do all of the following:**

7                   **(a) Specify insurance company objectives for engaging in derivative**  
8 **transactions and derivative strategies and all applicable risk constraints,**  
9 **including credit risk limits.**

10                   **(b) Establish counterparty exposure limits and credit quality standards.**

11                   **(c) Identify permissible derivative transactions and the relationship of**  
12 **those transactions to insurance company operations, including but not limited**  
13 **to a precise identification of the risks being hedged by a derivative transaction.**

14                   **(d) Require compliance with internal control procedures.**

15                   **(5) An insurance company shall have a written methodology for**  
16 **determining whether a derivative instrument used for hedging has been**  
17 **effective.**

18                   **(6) An insurance company shall have written policies and procedures**  
19 **describing the credit risk management process and a credit risk management**  
20 **system for over-the-counter derivative transactions that measures credit risk**  
21 **exposure using the counterparty exposure amount.**

22                   **(7) An insurance company's board of directors shall, in accordance with**  
23 **R.S. 22:601.4, do all of the following:**

24                   **(a) Approve the written guidelines, methodology, and policies and**  
25 **procedures required by Paragraphs (4), (5), and (6) of this Section and the**  
26 **systems required by Paragraphs (5) and (6) of this Section.**

27                   **(b) Determine whether the insurance company has adequate professional**  
28 **personnel, technical expertise, and systems to implement investment practices**  
29 **involving derivatives.**

1           (c) Review whether derivative transactions have been made in  
2           accordance with the approved guidelines and consistent with stated objectives.

3           (d) Take action to correct any deficiencies in internal controls relative  
4           to derivative transactions.

5           (8) Written documentation explaining the insurance company's internal  
6           guidelines and controls governing derivative transactions shall be submitted for  
7           approval to the commissioner. The commissioner may disapprove the guidelines  
8           and controls proposed by the company if the insurance company cannot  
9           demonstrate the proposed internal guidelines and controls would be adequate  
10           to manage the risks associated with the derivative transactions the insurance  
11           company intends to engage in.

12           (9) An insurance company shall maintain all of the following  
13           documentation and records relating to each derivative transaction:

14           (a) The purpose or purposes of the transaction.

15           (b) The assets or liabilities to which the transaction relates.

16           (c) The specific derivative instrument used in the transaction.

17           (d) For over-the-counter derivative instrument transactions, the name  
18           of the counterparty and the market value.

19           (e) For exchange-traded derivative instruments, the name of the  
20           exchange and the name of the firm that handled the trade and the market value.

21           (10) Each derivative instrument shall be any of the following:

22           (a) Traded on a qualified exchange.

23           (b) Entered into with, or guaranteed by, a business entity.

24           (c) Issued or written with the issuer of the underlying interest on which  
25           the derivative instrument is based.

26           (d) Entered into with a qualified foreign exchange.

27           (11) An insurer may enter into hedging transactions pursuant to this  
28           Section if, as a result of and after giving effect to the transaction, all of the  
29           following requirements are met:

1           (a) The aggregate statement value of options, caps, floors, and warrants  
2           not attached to another financial instrument purchased and used in hedging  
3           transactions does not exceed seven and one-half percent of its admitted assets.

4           (b) The aggregate statement value of options, caps, and floors written in  
5           hedging transactions does not exceed three percent of its admitted assets.

6           (c) The aggregate potential exposure of collars, swaps, forwards, and  
7           futures used in hedging transactions does not exceed six and one-half percent  
8           of its admitted assets.

9           (12) An insurer may enter only into any of the following types of income  
10          generation transactions if as a result of and after giving effect to the  
11          transactions, the aggregate statement value of the fixed income assets that are  
12          subject to call or that generate the cash flows for payments under the caps or  
13          floors, plus the face value of fixed income securities underlying a derivative  
14          instrument subject to call, plus the amount of the purchase obligations under  
15          the puts, does not exceed ten percent of its admitted assets:

16          (a) Sales of covered call options on noncallable fixed income securities,  
17          callable fixed income securities if the option expires by its terms prior to the end  
18          of the noncallable period, or derivative instruments based on fixed income  
19          securities.

20          (b) Sales of covered call options on equity securities, if the insurer holds  
21          in its portfolio, or can immediately acquire through the exercise of options,  
22          warrants or conversion rights already owned, the equity securities subject to  
23          call during the complete term of the call option sold.

24          (c) Sales of covered puts on investments that the insurer is permitted to  
25          acquire under this Subpart, if the insurer has escrowed, or entered into a  
26          custodian agreement segregating, cash or cash equivalents with a market value  
27          equal to the amount of its purchase obligations under the put during the  
28          complete term of the put option sold.

29          (d) Sales of covered caps or floors, if the insurer holds in its portfolio the

1 investments generating the cash flow to make the required payments under the  
2 caps or floors during the complete term that the cap or floor is outstanding.

3 (13) An insurer shall include all counterparty exposure amounts in  
4 determining compliance with the limitations of R.S. 22:601.6.

5 (14) The commissioner may approve additional transactions involving  
6 the use of derivative instruments in excess of the limits of Paragraph (11) of this  
7 Section or for other risk management purposes under regulations promulgated  
8 by the commissioner, but replication transactions shall not be permitted for  
9 purposes other than risk management purposes upon approval by the  
10 commissioner.

11 (15)(a) Before engaging in a transaction authorized pursuant to this  
12 Section, an insurer that has a statutory net capital and surplus of less than ten  
13 million dollars shall file a written notice with the commissioner describing the  
14 need to engage in the transaction, the lack of acceptable alternatives, and the  
15 insurer's plan to engage in the transaction. If the commissioner fails to issue an  
16 order prohibiting the insurer from engaging in the transaction within ninety  
17 days after the date of receipt of the insurer's notice, the insurer may engage in  
18 the transaction described in the notice.

19 (b) An insurer that has a statutory net capital and surplus of ten million  
20 dollars or greater shall file a written notice with the commissioner describing  
21 the need to engage in the transaction and the lack of acceptable alternatives  
22 within ninety days of initiating the transaction.

23 (c) The commissioner may at any time issue an order prohibiting an  
24 insurer or insurers from engaging in transactions otherwise authorized  
25 pursuant to this Section if the transactions are considered likely to subject the  
26 insurance company to a hazardous financial condition.

27 (d) An insurer with a statutory net capital and surplus less than the  
28 minimum amount of capital and surplus required for a new charter and  
29 certificate of authority for the same type of insurer may not engage in the



1 transactions authorized under this Section.

2 §601.15. Collateral loans

3 Loans upon the pledge of investments provided for pursuant to the terms  
4 of this Title are subject to the same limits as to each investment as is provided  
5 in this Title for investment, if the face or current market value, whichever is  
6 less, of the investments is more than the amount loaned thereon, and the current  
7 market value of the investments is at least twenty percent more than the amount  
8 loaned thereon. This limitation shall not apply to loans on the pledge of bonds  
9 or securities of the United States.

10 §601.16. Other admitted assets

11 For the purposes of this Subpart, the following assets are admitted  
12 assets:

13 (1) Cash in the direct possession of the insurer or in transit under its  
14 control, and including cash on deposit with a financial institution regulated by  
15 any federal or state agency of the United States.

16 (2) Loans secured by first liens on interest in oil, gas, or condensate  
17 properties or leaseholds in the United States and Canada on which there are  
18 fully completed commercially producing wells. The present value of the proved  
19 oil and gas reserves, as determined by a registered petroleum engineer, shall not  
20 be less than one hundred fifty percent of the loans thereon. Notwithstanding the  
21 provisions of R.S. 22:601.17, the total of loans and investments made pursuant  
22 to this Paragraph shall not exceed five percent of the insurer's admitted assets.

23 (3) A life insurer may lend to a policyholder on the security of the cash  
24 surrender value of the policyholder's policy a sum not exceeding the legal  
25 reserve that the insurer is required to maintain on the policy.

26 (4) A domestic insurer may invest in venture or seed capital investments  
27 offered by a professionally managed capital company which are certified under  
28 R.S. 51:1921 et seq., in a small business investment company (SBIC), or in a  
29 minority small business investment company (MSBIC) domiciled in this state,

1 or in any such company itself, investments of bonds or investments provided  
2 through the Louisiana Science and Technology Foundation as provided in R.S.  
3 22:832(E), any university research or incubator venture and opportunity, the  
4 Louisiana Small Business Development Corporation, the Louisiana Small  
5 Business Equity Corporation, and the rural relief fund, or any combination of  
6 investments and companies thereof. No insurer shall invest in excess of one  
7 percent of its available admitted assets, nor more than ten percent of the  
8 allowable one percent investment in any one venture, investment, offering, or  
9 company. No insurer shall make any such investment under this Subsection  
10 unless its statutorily mandated capitalization and surplus level is one million  
11 dollars or more, or if it is under any supervisory action or administration of the  
12 Department of Insurance. Any investment authorized by this Paragraph shall  
13 be eligible for a reduction of taxes as stipulated by R.S. 22:832 provided that  
14 either the investment or the company is in Louisiana.

15 (5) A domestic insurer may purchase for its own benefit life insurance  
16 policies, which comply with Section 7702 of the Internal Revenue Code, in  
17 which the insurer is the owner and beneficiary.

18 (6) Investments, securities, properties, and loans acquired, or held, in  
19 accordance with this Subpart and in connection therewith the following items:

20 (a) Interest due or accrued on any bond or evidence of indebtedness  
21 which is not in default and which is not valued on a basis including accrued  
22 interest.

23 (b) Declared and unpaid dividends on stock and shares, unless such  
24 amount has otherwise been allowed as an asset.

25 (c) Interest due or accrued upon a collateral loan in an amount not to  
26 exceed one year of interest thereon.

27 (d) Interest due or accrued on deposits in solvent banks and trust  
28 companies, and interest due or accrued on other assets, if such interest is in the  
29 judgment of the commissioner a collectible asset.

1           (e) Interest due or accrued on a mortgage loan, in an amount not  
2           exceeding in any event the amount, if any, of the excess of the value of the  
3           property less delinquent taxes thereon over the unpaid principal, but in no event  
4           shall interest accrued for a period in excess of twelve months be allowed as an  
5           asset.

6           (f) Rent due or accrued on immovable property, if such rent is not in  
7           arrears for more than three months, and rent more than three months in  
8           arrears, if the payment of such rent is adequately secured by property held in  
9           the name of the tenant and conveyed to the insurer as collateral.

10          (g) The unaccrued portion of taxes paid prior to the due date on  
11          immovable property.

12          (7) Premium notes, except as specifically excluded by R.S. 22:601.18(9),  
13          policy loans, and other policy assets and liens on policies and certificates of life  
14          insurance and annuity contracts, and accrued interest thereon, in an amount  
15          not exceeding the legal reserve and other policy liabilities carried on each  
16          individual policy.

17          (8) The net amount of uncollected and deferred premiums and annuity  
18          considerations in the case of a life insurer.

19          (9) Premiums in the course of collection, other than for life insurance,  
20          not more than three months due, less commissions payable thereon. The  
21          foregoing limitation shall not apply to premiums payable, directly or indirectly,  
22          by the United States government or by any of its instrumentalities.

23          (10) Installment premiums, other than life insurance premiums, to the  
24          extent of the unearned premium reserve carried on the policy to which  
25          premiums apply.

26          (11) Notes and life written obligations not past due taken for premiums,  
27          other than life insurance premiums, on policies permitted to be issued on such  
28          basis, to the extent of the unearned premium reserves carried thereon.

29          (12) The full amount of reinsurance recoverable by a ceding insurer from

1 a solvent reinsurer and which reinsurance is authorized pursuant to this Title.

2 (13) Amounts receivable by an assuming insurer representing funds  
3 withheld by a solvent ceding insurer under a reinsurance agreement.

4 (14) Deposits or equities recoverable from underwriting associations,  
5 syndicates and reinsurance funds, or from any suspended banking institution,  
6 to the extent considered by the commissioner, available for the payment of  
7 losses and claims and at values to be determined by him.

8 (15) Electronic data processing equipment as defined by the NAIC  
9 Accounting Practices and Procedures Manual.

10 (16) Other assets, not inconsistent with the provisions of this Section,  
11 considered by the commissioner to be available for the payment of losses and  
12 claims, at values to be determined by him.

13 (17) Goodwill purchased by a domestic life insurance company  
14 possessing twice the required capital and surplus. Goodwill shall be the same  
15 as defined in the Accounting Practices and Procedures Manual of the NAIC.  
16 Goodwill shall be amortized in accordance with the instructions set forth in the  
17 same manual, and amounts in excess of ten percent of an insurer's capital and  
18 surplus shall be written off immediately by a direct charge to surplus.

19 (18) Except as provided elsewhere in this Subpart, an insurer may invest  
20 in, acquire debt obligations of, or otherwise acquire and hold an interest in any  
21 limited partnership, limited liability company, or master limited partnership,  
22 which is formed pursuant to the laws of any state of the United States and which  
23 invests in assets otherwise permitted pursuant to this Subpart subject to the  
24 same limits applicable to each investment within the limited partnership,  
25 limited liability company, or master limited partnership as is provided in this  
26 Title for investment.

27 §601.17. Additional investment authority

28 A. Any domestic insurer, in addition to the other investments permitted  
29 by this Subpart, may invest in an amount equal to twenty-five percent of its

1 capital and surplus if a stock company, and if a company other than stock,  
2 twenty-five percent of its surplus, or five percent of its admitted assets,  
3 whichever is the greater, in an admitted asset pursuant to this Subpart without  
4 regard to the percentage limitations.

5 B. In addition to the authority provided pursuant to Subsection A of this  
6 Section, an insurer may acquire investments not otherwise permitted by this  
7 Subpart, and not specifically prohibited by statute, to the extent of not more  
8 than five percent of the first five hundred million dollars of the insurer's  
9 admitted assets plus ten percent of the insurer's admitted assets exceeding five  
10 hundred million dollars. No investment shall be permitted under this Section  
11 unless it meets the definition of an asset in the NAIC Accounting Practices and  
12 Procedures Manual.

13 §601.18. Prohibited investments

14 An insurer shall not, directly or indirectly, do any of the following:

15 (1) Engage on its own behalf or through one or more affiliates in a  
16 transaction or series of transactions designed to evade the prohibitions of this  
17 Subpart.

18 (2) Invest in a partnership as a general partner, except that an insurer  
19 may make an investment as a general partner:

20 (a) If all other partners in the partnership are subsidiaries of the insurer.

21 (b) For the purpose of any of the following:

22 (i) Meeting cash calls committed to prior to August 1, 2021.

23 (ii) Completing those specific projects or activities of the partnership in  
24 which the insurer was a general partner as of August 1, 2021, that had been  
25 undertaken as of August 1, 2021.

26 (iii) Making capital improvements to property owned by the partnership  
27 on August 1, 2021, if the insurer was a general partner as of August 1, 2021.

28 (c) This Paragraph shall not prohibit a subsidiary or other affiliate of the  
29 insurer from becoming a general partner.

1           (3) Invest in or lend its funds upon the security of shares of its own stock,  
2           except that an insurer may acquire shares of its own stock for the following  
3           purposes, but the shares shall not be admitted assets of the insurer:

4           (a) Conversion of a stock insurer into a mutual or reciprocal insurer or  
5           a mutual or reciprocal insurer into a stock insurer.

6           (b) Issuance to the insurer's officers, employees or agents in connection  
7           with a plan approved by the commissioner for converting a publicly held  
8           insurer into a privately held insurer or in connection with other stock option  
9           and employee benefit plans.

10          (c) In accordance with any other plan approved by the commissioner.

11          (4) Goodwill, trade names, and other intangible assets, except as  
12          provided for pursuant to R.S. 22:601.16(17).

13          (5) Stock of the insurer owned by it, or any equity therein, or loans  
14          secured thereby or any material proportionate interest in the stock acquired,  
15          or held, through the ownership by the insurer of an interest in another firm,  
16          corporation, or business unit.

17          (6) Furniture, fixtures, furnishings, safes, vehicles, libraries, stationery,  
18          literature, and supplies, except:

19           (a) The movable property as is required through foreclosure of chattel  
20           mortgages under loans insured or guaranteed under provisions of the National  
21           Housing Act or any act of congress relating to veterans benefits.

22           (b) That which is reasonably necessary for the maintenance and  
23           operation of real estate held by it other than real estate for home office, branch  
24           office, and similar purposes.

25           (c) In the case of title insurers, abstract plant and equipment not to  
26           exceed fifty percent of the paid-in capital stock of such title insurer.

27          (7) The amount, if any, by which the aggregate book value of  
28          investments, as carried in the assets of the insurer, exceeds the aggregate value,  
29          as determined under the provisions of this Title.

1                   **(8) Rental assets, which for the purposes of this Section shall include but**  
2                   **not be limited to the following:**

3                   **(a) Any item carried as an asset on the insurer's balance sheet, which is**  
4                   **not, in fact, owned by the insurer.**

5                   **(b) Any item carried as an asset on the insurer's balance sheet, the**  
6                   **ownership of which is subject to resolution, rescission, or revocation upon the**  
7                   **insurer's insolvency, receivership, bankruptcy, statutory supervision,**  
8                   **rehabilitation, liquidation, or upon the occurrence of any other contingency.**

9                   **(c) Any item carried as an asset on the insurer's balance sheet for which**  
10                   **the insurer pays a regular or periodic fee for the right to carry such items as an**  
11                   **asset, whether or not such fee is characterized as a rental, a management fee,**  
12                   **or an extraordinary dividend not previously approved by the commissioner, or**  
13                   **other periodic payment for such right.**

14                   **(d) Any asset purchased by the insurer on credit whereby the interest**  
15                   **rate paid by the insurer on its credit instrument is greater than the interest rate**  
16                   **or yield generated by the purchased asset.**

17                   **(e) Any asset received by the company as a contribution to capital from**  
18                   **any affiliate, holding company, or control person, or from any affiliate of any**  
19                   **such affiliate, holding company, or control person, which meets any of the**  
20                   **criteria set forth in Subparagraphs (a) through (d) of this Paragraph while in**  
21                   **the hands of such contributing party, or at the moment of such contribution to**  
22                   **capital, or thereafter.**

23                   **(9) Premium notes on policies and certificates of life insurance and**  
24                   **annuity contracts, and accrued interest thereon, except when the insurer, issuer,**  
25                   **or noteholder agrees to an examination by the department to determine whether**  
26                   **any inflation or duplication of assets exists.**

27                   **(10) No domestic insurer shall pay any commission or brokerage for the**  
28                   **purchase or sale of property in excess of that usual and customary at the time**  
29                   **and in the locality where such purchases or sales are made, and information**

1 regarding all payments of commissions and brokerage shall be reported in the  
2 next annual statement.

3 §601.19. Pledging of assets restricted

4 A. No insurance company domiciled in this state shall pledge its assets  
5 solely to secure a personal loan, other than a policy loan based on the  
6 contractual terms of a policy of insurance issued by the company, if the loan is  
7 solely for the personal benefit of any officer, director, or employee. Nothing  
8 herein shall be construed to limit the right of an insurance company to pledge  
9 any or all of its assets to secure loans in the ordinary course of its business and  
10 for the company's business purposes and to obtain, as further security therefor,  
11 the guarantee, personal or otherwise, of any officer, director, or employee. The  
12 commissioner may bring an action to recover and conserve any asset pledged  
13 in violation of this Section.

14 B. Any company or any officer, director, or employee violating the  
15 provisions of this Section may be fined not more than ten thousand dollars for  
16 each violation, and the officer, director, or employee may be removed from such  
17 office, position, capacity, or relationship with the company.

18 §601.20. Loans to officers and directors

19 A. An insurer shall not, directly or indirectly do any of the following:

20 (1) Invest in an obligation or security or make a guarantee for the benefit  
21 of or in favor of an officer, director, or controlling stockholder of the insurer.

22 (2) Invest in or loan upon any real estate which is owned or partly owned  
23 by any officer, director, or controlling stockholder of the insurer, nor shall any  
24 such insurer invest in or loan upon any bond or note secured by mortgage or  
25 trust deed on real estate if an officer, director, or controlling stockholder of  
26 such insurer is owner or part owner of the real estate upon which the loan is  
27 made.

28 (3) Invest in an obligation or security, make a guarantee for the benefit  
29 of or in favor of, or make other investments in a business entity of which ten



1 percent or more of the voting securities or equity interests are owned directly  
2 or indirectly by or for the benefit of one or more officers, directors, or  
3 controlling stockholders of the insurer, except as authorized in R.S. 22:691.7.

4 B. No insurer shall, without the prior written approval from the  
5 commissioner of insurance, directly or indirectly do any of the following:

6 (1) Make a loan to or other investment in an officer, director, or  
7 controlling stockholder of the insurer or a person in which the officer, director,  
8 or controlling stockholder has any direct or indirect financial interest.

9 (2) Make a guarantee for the benefit of or in favor of an officer, director,  
10 or controlling stockholder of the insurer or a person in which the officer,  
11 director, or controlling stockholder has any direct or indirect financial interest.

12 (3) Enter into an agreement for the purchase or sale of property from or  
13 to an officer, director, or controlling stockholder of the insurer or a person in  
14 which the officer, director, or controlling stockholder has any direct or indirect  
15 financial interest.

16 C. An insurer may make, without the prior written approval of the  
17 commissioner, policy loans in accordance with the terms of the policy or  
18 contract issued to an officer, director, or controlling stockholder.

19 D. This Section shall not apply to a transaction between an insurer and  
20 any of its subsidiaries or affiliates that is entered into in compliance with R.S.  
21 22:691.7, other than a transaction between an insurer and its officers, directors,  
22 or controlling stockholders.

23 E. Any officer, director, or controlling stockholder knowingly  
24 participating in or abetting the violation of any provision of this Section where  
25 fraud is shown to exist shall be fined not less than one thousand dollars nor  
26 more than ten thousand dollars, or imprisoned not more than ten years, or both.  
27 §601.21. Judicial review; mandamus

28 A. Any person aggrieved by any act, determination, rule, regulation, or  
29 order or any other action of the commissioner pursuant to this Subpart may

1 appeal to the Nineteenth Judicial District Court in and for the parish of East  
 2 Baton Rouge. The court shall conduct its review without a jury and by trial de  
 3 novo, except that if all parties, including the commissioner, so stipulate, the  
 4 review shall be confined to the record. Portions of the record may be introduced  
 5 by stipulation into evidence in a trial de novo as to those parties so stipulating.

6 B. The filing of an appeal pursuant to this Section shall stay the  
 7 application of any rule, regulation, order, or other action of the commissioner  
 8 to the appealing party unless the court, after giving the party notice and an  
 9 opportunity to be heard, determines that a stay would be detrimental to the  
 10 interest of policyholders, shareholders, creditors, or the public.

11 C. Any person aggrieved by any failure of the commissioner to act or  
 12 make a determination required by this Subpart may petition the Nineteenth  
 13 Judicial District Court in and for the parish of East Baton Rouge for a writ of  
 14 mandamus directing the commissioner to act or make a determination  
 15 forthwith.

16 Section 2. Subpart B of Part III of Chapter 2 of Title 22 of the Louisiana Revised  
 17 Statutes of 1950, comprised of R.S. 22:581 through 601, is hereby repealed.

18 Section 3. This Act shall become effective on January 1, 2022.

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The original instrument was prepared by Thomas L. Tyler. The following digest, which does not constitute a part of the legislative instrument, was prepared by Jeanne Johnston.

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DIGEST

SB 73 Reengrossed                      2021 Regular Session                      Milligan

Proposed law repeals and replaces provisions involving investments of domestic insurers.

Proposed law defines various investment terms including "acceptable collateral" and "admitted asset" and authorizes insurers to acquire, hold, or invest in investments or engage in investment practices as provided in proposed law and those not conforming to proposed law are not admitted assets.

Proposed law prohibits the purchase or acquisition of a security or other investment unless it is interest bearing or interest accruing or dividend or income paying or eligible for dividends or income and not in default.

Proposed law provides for qualifications for general investments by insurers; insurer investment policies; authorizations by an insurer's board of directors of investments; the valuation of certain investments by an insurer; the acquisition of bonds by an insurer as

investments; equity interests, mortgage loans, real estate, acquired by insurer; lending, repurchase, reverse repurchase, and dollar roll of securities by an insurer; foreign investments and currency exposure; insurer investment pools; derivative transactions involving insurers; collateral loans; admitted assets; additional investment authority; prohibited investments; restrictions on pledging assets; loans to an insurer's officers and directors; and judicial review of investment rules, regulations, and actions of the commissioner.

Effective January 1, 2022.

(Adds R.S. 22:601.1 - 601.21; repeals R.S. 22:581 - 601)

Summary of Amendments Adopted by Senate

Senate Floor Amendments to engrossed bill

1. Make technical changes.