

## **AN ACT CONCERNING INSIDER TRADING OF DOMESTIC STOCK INSURANCE COMPANY EQUITY SECURITIES**

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### **Introduction**

Be it Enacted by the General Assembly of the State of [insert state]:

#### **Section 1. Applicability**

Every person who is directly or indirectly the beneficial owner of more than ten percent (10%) of any class of any equity security of a domestic stock insurance company, or who is a director or an officer of such company, shall file in the office of the Commissioner [Superintendent, Director] on or before [January 31, 1965], or within ten (10) days after he becomes such beneficial owner, director or officer, a statement, in such form as the Commissioner may prescribe, of the amount of all equity securities of such company of which he is the beneficial owner, and within ten (10) days after the close of each calendar month thereafter, if there has been a change in such ownership during such month, shall file in the office of the Commissioner a statement, in such form as the Commissioner may prescribe, indicating his ownership at the close of the calendar month and such changes in his ownership as have occurred during such calendar month.

**Note:** It is recommended that the term "officer" be defined by regulation of the insurance commissioner which in effect adopts the definition set out in Schedule SIS as promulgated by the National Association of Insurance Commissioners, to wit:

The term "officer" means a president, vice president, treasurer, actuary, secretary, controller, and any other person who performs for the company functions corresponding to those performed by the foregoing officers.

#### **Section 2. Unfair Use of Information**

For the purpose of preventing the unfair use of information which may have been obtained by such beneficial owner, director or officer by reason of his relationship to such company, any profit realized by him from any purchase and sale, or any sale and purchase, of any equity security of such company within any period of less than six (6) months, unless such security was acquired in good faith in connection with a debt previously contracted, shall inure to and be recoverable by the company, irrespective of any intention on the part of such beneficial owner, director or officer in entering into such transaction of holding the security purchased or of not repurchasing the security sold for a period exceeding six (6) months. Suit to recover such profit may be instituted at law or in equity in any court of competent jurisdiction by the company, or by the owner of any security of the company in the name and in behalf of the company if the company shall fail or refuse to bring such suit within sixty (60) days after request or shall fail to diligently prosecute the same thereafter; but no such

suit shall be brought more than two (2) years after the date such profit was realized. This section shall not be construed to cover any transaction where such beneficial owner was not such, both at the time of the purchase and sale, or the sale and purchase, of the security involved, or any transaction or transactions which the Commissioner by rules and regulations may exempt as not comprehended within the purpose of this section.

### **Section 3. Sale of Equity Security**

It shall be unlawful for any such beneficial owner, director or officer, directly or indirectly, to sell any equity security of such company if the person selling the security or his principal (i) does not own the security sold or (ii) if owning the security, does not deliver it against such sale within twenty (20) days thereafter or does not within five (5) days after such sale deposit it in the mails or other usual channels of transportation; but no person shall be deemed to have violated this section if he proves that notwithstanding the exercise of good faith he was unable to make such delivery or deposit within such time, or that to do so would cause undue inconvenience or expense.

### **Section 4. Exceptions to Section 2 and 3**

The provisions of Section 2 of this Act shall not apply to any purchase and sale, or sale and purchase, and the provisions of Section 3 of this Act shall not apply to any sale, of an equity security of a domestic stock insurance company not then or theretofore held by him in an investment account, by a dealer in the ordinary course of his business and incident to the establishment or maintenance by him of a primary or secondary market (otherwise than on an exchange as defined in the Securities Exchange Act of 1934) for such security. The Commissioner may, by such rules and regulations as he deems necessary or appropriate in the public interest, define and prescribe terms and conditions with respect to securities held in an investment account and transactions made in the ordinary course of business and incident to the establishment or maintenance of a primary or secondary market.

### **Section 5. Exception - Foreign or Domestic Arbitrage Transaction**

The provisions of Sections 1, 2, and 3 of this Act shall not apply to foreign or domestic arbitrage transactions unless made in contravention of such rules and regulations as the Commissioner may adopt in order to carry out the purposes of this Act.

### **Section 6. Equity Security Defined**

The term "equity security" when used in this Act means any stock or similar security; or any security convertible, with or without consideration, into such a security, or carrying any warrant or right to subscribe to or purchase such a security; or any such warrant or right; or any other security which the Commissioner shall deem to be of similar nature and consider necessary or appropriate, by such rules and regulations as he may prescribe in the public interest or for the protection of investors, to treat as an equity security.

### **Section 7. Exceptions - Domestic Stock Insurers**

The provisions of Sections 1, 2, and 3 of this Act shall not apply to equity securities of a domestic stock insurance company if:

- A. Such securities shall be registered, or shall be required to be registered, pursuant to Section 12 of the Securities Exchange Act of 1934, as amended; or if

- B. Such domestic stock insurance company shall not have any class of its equity securities held of record by one hundred or more persons on the last business day of the year next preceding the year in which equity securities of the company would be subject to the provisions of Sections 1, 2, and 3 of this Act except for the provisions of this Subsection B.

#### **Section 8. Power of Commissioner**

The Commissioner shall have the power to make such rules and regulations as may be necessary for the execution of the functions vested in him by Sections 1 through 7 of this Act, and may for such purpose classify domestic stock insurance companies, securities, and other persons or matters within his jurisdiction. No provision of Sections 1, 2 and 3 of this Act imposing any liability shall apply to any done or omitted in good faith in conformity with any rule or regulation of the Commissioner, notwithstanding that such rule or regulation may, after such act or omission, be amended or rescinded or determined by judicial or other authority to be invalid for any reason.

#### **Section 9. Forfeiture Provision**

Any person that fails to file information, documents or reports required to be filed under this Act or any rule or regulation thereunder shall forfeit to the State of [insert state] the sum of \$100 for each and every day such failure to file shall continue. Such forfeiture, which shall be in lieu of any criminal penalty for such failure to file which might be deemed to arise under this Act, shall be payable into the treasury of the State of [insert state] and shall be recoverable in a civil suit in the name of the State of [insert state].

#### **Section 10. Effective Date**

This act shall take effect [insert date].

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*Chronological Summary of Action (all references are to the Proceedings of the NAIC).*

*1965 Proc. I 150, 153, 171-173, 191 (adopted).*

*1968 Proc. II 500, 564-565, 567 (amended).*

*1969 Proc. I 169, 246, 271 (technical amendments).*