

1 AN ACT

2 relating to conversion of a reciprocal or interinsurance exchange  
3 to a stock company through creation of a mutual holding company.

4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

5 SECTION 1. Subtitle B, Title 6, Insurance Code, is amended  
6 by adding Chapter 829 to read as follows:

7 CHAPTER 829. CONVERSION OF RECIPROCAL OR INTERINSURANCE EXCHANGE  
8 TO STOCK COMPANY THROUGH CREATION OF A MUTUAL HOLDING COMPANY

9 SUBCHAPTER A. GENERAL PROVISIONS

10 Sec. 829.001. DEFINITIONS. In this chapter:

11 (1) "Attorney in fact" has the meaning assigned by  
12 Section 942.001.

13 (2) "Board of directors" means, as to an exchange, the  
14 board of directors, board of trustees, subscriber advisory  
15 committee, or other governing body appointed or elected by the  
16 subscribers of an exchange.

17 (3) "Conversion plan" means a plan adopted under this  
18 chapter to convert an exchange to a stock insurance company and form  
19 a mutual holding company to hold, directly or indirectly, shares of  
20 the resulting company.

21 (4) "Converting exchange" means an exchange that is  
22 converting to a stock insurance company under this chapter.

23 (5) "Eligible member" means a member of a converting  
24 exchange whose policy is in force on the date that the converting

1 exchange's board of directors adopts a conversion plan.

2 (6) "Effective date" means the effective date of a  
3 conversion plan in accordance with Section 829.108.

4 (7) "Exchange" has the meaning assigned by Section  
5 942.001.

6 (8) "Intermediate holding company" means a holding  
7 company organized under the laws of this or another state that:

8 (A) is a subsidiary of a mutual holding company  
9 formed to reorganize an exchange; and

10 (B) directly or through a subsidiary  
11 intermediate holding company, owns at least a majority of the  
12 voting shares of the capital stock of the resulting company.

13 (9) "Member" means, as to an exchange, a subscriber of  
14 an exchange.

15 (10) "Mutual holding company" means a holding company  
16 based on a mutual plan and formed in connection with the conversion  
17 of an exchange to a stock insurance company under this chapter.

18 (11) "Participating policy" means a policy issued by  
19 an exchange that grants the policyholder the right to receive  
20 policy dividends if declared by the exchange.

21 (12) "Resulting company" means a stock insurance  
22 company resulting from the conversion of an exchange under this  
23 chapter.

24 (13) "Subscriber" has the meaning assigned by Section  
25 942.001.

26 Sec. 829.002. AUTHORITY TO CONVERT THROUGH CREATION OF A  
27 MUTUAL HOLDING COMPANY. (a) An exchange may reorganize by

1 converting to a stock insurance company and forming a mutual  
2 holding company to hold, directly or indirectly, shares of the  
3 resulting company or intermediate holding company in accordance  
4 with this chapter.

5 (b) A converting exchange may not engage in the business of  
6 insurance as a stock insurance company until it complies with the  
7 requirements of this chapter.

8 Sec. 829.003. RIGHTS AND PRIVILEGES OF RESULTING COMPANY;  
9 LAWS APPLICABLE. Except as provided by this chapter, the resulting  
10 company:

11 (1) may exercise only the rights and privileges of a  
12 stock insurance company; and

13 (2) is subject to:

14 (A) all of the requirements and rules imposed on  
15 stock insurance companies organized under this code; and

16 (B) the laws of this state relating to the  
17 regulation or supervision of insurance companies.

18 Sec. 829.004. MUTUAL HOLDING COMPANY; LAWS APPLICABLE.

19 (a) Except as provided by this chapter, a mutual holding company  
20 is considered an insurer subject to this chapter and Chapter 883.

21 (b) The commissioner has jurisdiction over a mutual holding  
22 company organized under this chapter to ensure that member  
23 interests are protected.

24 (c) The mutual holding company is automatically a party to a  
25 delinquency proceeding under Subtitle C, Title 4, involving an  
26 insurance company that, as a result of a reorganization under this  
27 chapter, is a direct or indirect subsidiary of the mutual holding

1 company. In any proceeding described by this subsection involving  
2 the resulting company, the assets of the mutual holding company are  
3 considered assets of the resulting company for purposes of  
4 satisfying the claims of the resulting company's policyholders.

5 (d) A mutual holding company that results from a  
6 reorganization of an exchange must be organized under Sections  
7 883.051, 883.052, 883.054, and 883.056. The articles of  
8 incorporation of the mutual holding company, and any amendments to  
9 those articles, are subject to approval of the commissioner in the  
10 same manner as those of a mutual insurance company.

11 (e) The mutual holding company may not dissolve or liquidate  
12 without the approval of the commissioner.

13 (f) A mutual holding company formed under a conversion plan  
14 is not subject to:

15 (1) Article 2.11B, Texas Non-Profit Corporation Act  
16 (Article 1396-2.11B, Vernon's Texas Civil Statutes);

17 (2) Section B, Article 2.23, Texas Non-Profit  
18 Corporation Act (Article 1396-2.23, Vernon's Texas Civil  
19 Statutes);

20 (3) Section C, Article 2.23A, Texas Non-Profit  
21 Corporation Act (Article 1396-2.23A, Vernon's Texas Civil  
22 Statutes); or

23 (4) Sections 22.158, 22.351, and 22.353(b), Business  
24 Organizations Code.

25 Sec. 829.005. CONFLICT OF INTEREST. (a) Except as  
26 provided by a conversion plan approved by the commissioner or by  
27 this section, the following individuals may not receive a fee,

1 commission, stock distribution, stock subscription rights, or  
2 other consideration, other than that individual's usual salary or  
3 compensation for aiding, promoting, assisting, or participating in  
4 a conversion under this chapter:

5 (1) a director, officer, agent, or employee of a  
6 converting exchange or the exchange's attorney in fact; or

7 (2) the attorney in fact if the attorney in fact is an  
8 individual.

9 (b) Subsection (a) does not apply to consideration received  
10 in the individual's capacity as a member.

11 (c) This section does not prohibit the payment of reasonable  
12 fees and compensation to an attorney, accountant, or actuary for  
13 professional services performed by that person, without regard to  
14 whether the person is also a director or officer of the converting  
15 exchange or its attorney in fact.

16 Sec. 829.006. LIMITATION ON ACTIONS. (a) Except as  
17 provided by Subsection (b), an action challenging the validity of  
18 or arising out of acts taken or proposed to be taken regarding a  
19 conversion plan under this chapter must be commenced not later than  
20 the 30th day after the date the conversion plan is approved by the  
21 commissioner.

22 (b) An action challenging the validity of or arising out of  
23 acts taken or proposed to be taken regarding a conversion plan that  
24 contemplates a public offering of debt or equity registered under  
25 the federal Securities Act of 1933 (15 U.S.C. Section 77a et seq.),  
26 or a similar law of a foreign jurisdiction, must be commenced not  
27 later than the 60th day after the date the conversion plan is

1 approved by the commissioner.

2 Sec. 829.007. SALE OF SECURITIES. (a) A sale, issuance,  
3 or offering of securities under this chapter is exempt from the  
4 registration and licensing provisions of The Securities Act  
5 (Article 581-1 et seq., Vernon's Texas Civil Statutes).

6 (b) An officer, director, or employee of an exchange, an  
7 intermediate holding company, a mutual holding company, or a  
8 resulting company who participates in a conversion under this  
9 chapter is exempt from the registration and licensing provisions of  
10 The Securities Act (Article 581-1 et seq., Vernon's Texas Civil  
11 Statutes). A person may not receive compensation, other than that  
12 person's usual salary or compensation, for services performed under  
13 the exemption provided by this subsection.

14 [Sections 829.008-829.050 reserved for expansion]

15 SUBCHAPTER B. MUTUAL HOLDING COMPANY STRUCTURE

16 Sec. 829.051. CAPITAL STOCK HELD BY MUTUAL HOLDING COMPANY.

17 (a) In this section, "majority of the voting shares of the capital  
18 stock" means shares of the capital stock of a company that carry the  
19 right to cast a majority of the votes entitled to be cast by all of  
20 the outstanding shares of the capital stock of the company on all  
21 matters submitted to a vote of the shareholders of the company.

22 (b) All of the initial shares of the capital stock of the  
23 resulting company shall be issued to the mutual holding company or  
24 to an intermediate holding company.

25 (c) The mutual holding company shall at all times own a  
26 majority of the voting shares of the capital stock of the resulting  
27 company or of an intermediate holding company. The requirements of

1 this subsection may be satisfied by indirect ownership through one  
2 or more intermediate holding companies in a corporate structure  
3 approved by the commissioner.

4 (d) Except with the consent of the commissioner, the mutual  
5 holding company or intermediate holding company may not convey,  
6 transfer, assign, pledge, subject to a security interest or lien,  
7 encumber, or otherwise hypothecate or alienate the majority of the  
8 voting shares of the capital stock that is required to be owned  
9 under Subsection (c).

10 (e) An act of the mutual holding company or intermediate  
11 holding company that violates Subsection (d) is void in inverse  
12 chronological order from the date of the conveyance or activity as  
13 to the shares necessary to constitute a majority of the voting  
14 shares of the capital stock.

15 (f) The remaining minority portion of the voting shares of  
16 capital stock of the resulting company, or of an intermediate  
17 holding company, may not be assigned, transferred, or pledged to  
18 any officer, director or employee of the converting exchange, or  
19 persons acting in concert with such persons, without also offering  
20 a similar opportunity to participate to all eligible members as  
21 required by Section 829.053(g).

22 Sec. 829.052. LIMITATION ON ACQUISITION OF CAPITAL STOCK.

23 (a) The conversion plan must provide that a person or group of  
24 persons acting in concert, other than the mutual holding company or  
25 an intermediate holding company, may not acquire, in a public or  
26 private offering or through an exercise of stock subscription  
27 rights, more than 10 percent of the capital stock of the resulting

1 company unless the acquisition of the stock or stock subscription  
2 rights is approved in advance by the commissioner.

3 (b) Subsection (a) does not apply to an entity that  
4 purchases and retains at all times a majority of the voting shares  
5 of the capital stock of the resulting company as part of the  
6 conversion plan approved by the commissioner.

7 Sec. 829.053. DIRECTORS AND OFFICERS. (a) Except as  
8 otherwise provided by this section, the conversion plan must  
9 provide that a director or officer of the converting exchange, or a  
10 person acting in concert with the director or officer, may not  
11 acquire, without the permission of the commissioner, any shares of  
12 the capital stock of the resulting company, or the shares of the  
13 capital stock of another corporation that is participating in the  
14 conversion plan, before the third anniversary of the effective date  
15 of the conversion. This subsection does not prohibit the director  
16 or officer from:

17 (1) acquiring capital stock through a broker-dealer;

18 (2) making purchases through the exercise of stock  
19 subscription rights received under the conversion plan; or

20 (3) participating in a stock benefit plan permitted by  
21 Section 829.054 or approved by the eligible members under Section  
22 829.107.

23 (b) A conversion plan may provide that the directors and  
24 officers of the converting exchange may receive, without payment,  
25 nontransferable subscription rights to purchase shares of the  
26 capital stock of the resulting company or the shares of the capital  
27 stock of another corporation that is participating in the



1 conversion plan.

2 (c) The aggregate number of shares that may be purchased by  
3 directors and officers under Subsection (b) may not exceed:

4 (1) 35 percent of the total number of shares to be  
5 issued for the resulting company if the total assets of the  
6 converting exchange are less than \$50 million;

7 (2) 25 percent of the total number of shares to be  
8 issued for the resulting company if the total assets of the  
9 converting exchange are more than \$500 million;

10 (3) five percent of the total number of shares to be  
11 issued for the resulting company if the total assets of the  
12 converting exchange are more than \$1 billion; or

13 (4) one percent of the total number of shares to be  
14 issued for the resulting company if the total assets of the  
15 converting exchange are more than \$10 billion.

16 (d) For a converting exchange with total assets between \$50  
17 million and \$500 million, inclusive, the maximum percentage of the  
18 total number of shares that may be purchased shall be interpolated  
19 from amounts provided under Subsection (c).

20 (e) A conversion plan must provide that a director or  
21 officer of the converting exchange may not sell stock purchased  
22 under the conversion plan before the first anniversary of the  
23 effective date of the conversion.

24 (f) Notwithstanding Subsection (e), a conversion plan may  
25 provide for the purchase or redemption of stock in the event that a  
26 director or officer no longer serves as a director or officer of, or  
27 no longer is associated with, the resulting company during the

1 period described by Subsection (e).

2 (g) If, as part of the conversion, any director or officer  
3 of the converting exchange, the mutual holding company, or an  
4 intermediate holding company receives more than one percent of the  
5 shares of the capital stock of the resulting company, or other  
6 valuable consideration, which is paid from the surplus of the  
7 converting exchange, each eligible member also is entitled to  
8 receive an amount of the converting exchange's surplus on hand on  
9 the effective date of the conversion computed in the same manner as  
10 the amount received by the director or officer, or as otherwise  
11 provided in the conversion plan approved by the commissioner.

12 Sec. 829.054. SUBSCRIPTION RIGHTS; TAX-QUALIFIED EMPLOYEE  
13 BENEFIT PLAN. The conversion plan may allocate to a tax-qualified  
14 employee benefit plan nontransferable subscription rights to  
15 purchase not more than 10 percent of the capital stock of the  
16 resulting company.

17 [Sections 829.055-829.100 reserved for expansion]

18 SUBCHAPTER C. PLAN ADOPTION AND APPROVAL

19 Sec. 829.101. PLAN ADOPTION. (a) To convert under this  
20 chapter an exchange must adopt a conversion plan consistent with  
21 this chapter by the affirmative vote of at least two-thirds of the  
22 members of its board of directors or, if the exchange does not have  
23 a board of directors, by approval of the attorney in fact. The  
24 proposed articles of incorporation of the resulting company and the  
25 mutual holding company must be exhibits to the conversion plan.

26 (b) For a conversion plan to take effect:

27 (1) the commissioner must approve the conversion plan;

1 and

2 (2) the eligible members must approve the conversion  
3 plan and adopt the articles of incorporation of the resulting  
4 company and the mutual holding company.

5 Sec. 829.102. AMENDMENTS; WITHDRAWAL OF PLAN. Before a  
6 conversion plan takes effect, a converting exchange may amend or  
7 withdraw the plan by the affirmative vote of at least two-thirds of  
8 the members of its board of directors or, if the exchange does not  
9 have a board of directors, by approval of the attorney in fact. The  
10 written consent of the commissioner is required for any amendment  
11 to a conversion plan adopted after the commissioner has approved  
12 the plan under Section 829.106.

13 Sec. 829.103. FILING OF PLAN AND RELATED DOCUMENTS WITH  
14 COMMISSIONER; COMMISSIONER'S POWERS AND DUTIES. (a) Not later  
15 than the 90th day after the date on which a converting exchange's  
16 board of directors adopts a conversion plan, the converting  
17 exchange shall file with the commissioner:

18 (1) a copy of the conversion plan;

19 (2) the form of notices required by Section 829.104;

20 (3) the form of proxy to be solicited from eligible  
21 members under Section 829.107(a);

22 (4) the form of notice required by Section 829.153 to  
23 persons whose policies are issued after adoption of the conversion  
24 plan but before the effective date of the conversion plan; and

25 (5) the proposed articles of incorporation of the  
26 resulting company and the mutual holding company.

27 (b) The converting exchange shall promptly provide any

1 other information requested by the commissioner that the  
2 commissioner considers necessary to consider the conversion plan.

3 Sec. 829.104. NOTICE TO ELIGIBLE MEMBERS; COMMENTS.

4 (a) The converting exchange shall give eligible members at least  
5 30 days' written notice of the members' meeting to vote on the  
6 conversion plan and advising of the members' right to comment on the  
7 plan to the commissioner and the converting exchange, including a  
8 description of the procedure to be used in making comments. Notice  
9 to the members of the proposed vote on the conversion plan must  
10 provide clear and conspicuous language apart from other meeting  
11 materials and provide a disclosure statement of the distribution of  
12 surplus or stock to directors and officers of the converting  
13 exchange, if any.

14 (b) If the commissioner determines to hold a hearing on the  
15 plan, the commissioner must approve the notice of hearing and  
16 notify the converting exchange not later than the 45th day  
17 following the first day on which all the documents required under  
18 Section 829.103 are filed with the commissioner. The converting  
19 exchange shall send to eligible members the commissioner's notice  
20 of the hearing at least 30 days before the date set for the hearing.  
21 The commissioner must approve the content and print layout of the  
22 hearing notice before the converting exchange sends notice of the  
23 hearing to eligible members. Notice of the hearing may be made  
24 through publication in the Texas Register.

25 (c) The notices required by Subsections (a) and (b) may be  
26 combined in a single mailing. The notice or notices must be sent to  
27 the member's last known address, as shown on the converting

1 exchange's records. The notice of the members' meeting must:

2 (1) describe the proposed conversion plan; and

3 (2) inform the member of the member's right to vote on  
4 the conversion plan.

5 (d) If the notice of the meeting to vote on the conversion  
6 plan is combined with a notice of the converting exchange's annual  
7 meeting of members, the notice of the proposed vote on the  
8 conversion plan must be clear and conspicuous and set apart from  
9 other meeting materials. A notice that is approved in advance by  
10 the commissioner is deemed to be in full compliance with the  
11 requirements of this subsection.

12 Sec. 829.105. SUBSTANTIAL COMPLIANCE WITH NOTICE  
13 REQUIREMENTS. If the converting exchange in good faith  
14 substantially complies with the notice requirements of this  
15 chapter, the converting exchange's failure to send a member the  
16 required notice does not impair the validity of an action taken  
17 under this chapter.

18 Sec. 829.106. APPROVAL OF PLAN BY COMMISSIONER. (a) The  
19 commissioner shall approve a conversion plan if the commissioner  
20 determines that:

21 (1) the plan complies with this chapter;

22 (2) the plan's method of allocating stock subscription  
23 rights, stock transfers, or other value, if any, is fair and  
24 equitable; and

25 (3) the resulting company would satisfy the  
26 requirements applicable to a domestic stock insurance company for a  
27 certificate of authority on the date of the determination.

1       (b) Except as otherwise provided by this section, the  
2 commissioner shall approve or disapprove a conversion plan not  
3 later than the 90th day after the first day on which all the  
4 documents required under Section 829.103 are filed with the  
5 commissioner.

6       (c) The commissioner may extend the time for decision by an  
7 additional 30 days on written notice to the converting exchange.  
8 Except as provided under Subsection (e) or (f), the commissioner  
9 may not extend the time for decision beyond that 30-day period.

10       (d) The commissioner shall immediately give written notice  
11 to the converting exchange of the commissioner's decision and, if  
12 the commissioner disapproves the plan, a detailed statement of the  
13 reasons for the disapproval.

14       (e) The commissioner may retain, at the converting  
15 exchange's expense, a qualified expert who is not a member of the  
16 commissioner's staff to assist the commissioner in reviewing  
17 whether the conversion plan meets the requirements for approval by  
18 the commissioner or the value of the distribution of surplus of the  
19 resulting company to the officers and directors of the converting  
20 exchange, if any. If the commissioner retains a qualified expert  
21 under this subsection, the commissioner may extend the period for  
22 decision by an additional 90 days beyond the initial 90-day period  
23 specified in Subsection (b).

24       (f) If the conversion plan contemplates a public offering of  
25 debt or equity registered under the federal Securities Act of 1933  
26 (15 U.S.C. Section 77a et seq.), or a similar law of a foreign  
27 jurisdiction, the commissioner may extend the period of time to

1 approve the conversion plan by an additional 180 days beyond the  
2 initial 90-day period specified in Subsection (b).

3 (g) After giving written notice to the converting exchange,  
4 the commissioner may hold a hearing on whether the conversion plan  
5 complies with this chapter. The converting exchange has the right  
6 to appear at the hearing. Other interested persons have the right  
7 to attend the hearing and comment on the conversion plan. Notice of  
8 the hearing may be made through publication in the Texas Register in  
9 accordance with Section 829.104(b).

10 Sec. 829.107. APPROVAL OF PLAN BY ELIGIBLE MEMBERS.

11 (a) After notice that complies with this chapter, the converting  
12 exchange may convene a meeting to consider the conversion plan, and  
13 any eligible member entitled to vote on the proposed conversion  
14 plan may vote in person or by proxy at the meeting. Except as  
15 otherwise provided in the bylaws of the converting exchange, each  
16 eligible member may cast one vote.

17 (b) Adoption of the conversion plan requires the  
18 affirmative vote of at least two-thirds of the votes cast by  
19 eligible members.

20 Sec. 829.108. FILING OF MINUTES, ARTICLES OF INCORPORATION,  
21 AND BYLAWS; EFFECTIVE DATE OF CONVERSION. (a) The converting  
22 exchange shall file with the commissioner:

23 (1) the minutes of the meeting at which the plan was  
24 approved; and

25 (2) the articles of incorporation and bylaws of the  
26 resulting company and the mutual holding company.

27 (b) The converting exchange shall make the filing required

1 by Subsection (a) not later than the 30th day after the later of:

2 (1) the date on which the eligible members approve the  
3 conversion plan; or

4 (2) the date on which the commissioner approves the  
5 conversion plan.

6 (c) The conversion plan approved by the commissioner takes  
7 effect on the date specified in the articles of incorporation of the  
8 resulting company and the mutual holding company.

9 [Sections 829.109-829.150 reserved for expansion]

10 SUBCHAPTER D. EFFECT OF PLAN; RIGHTS OF MEMBERS

11 Sec. 829.151. CORPORATE EXISTENCE. (a) On the effective  
12 date:

13 (1) the legal existence of the converting exchange  
14 continues in the resulting company;

15 (2) all assets, rights, franchises, and interests of  
16 the converting exchange in and to property and any accompanying  
17 thing in action are vested in the resulting company without a deed  
18 or transfer;

19 (3) the resulting company assumes all the obligations  
20 and liabilities of the converting exchange; and

21 (4) the power of attorney or other appropriate  
22 authorization granting the attorney in fact the authority to act  
23 for the subscribers of the converting exchange is terminated.

24 (b) Except as otherwise specified by the conversion plan:

25 (1) the directors and officers of the converting  
26 exchange serving on the effective date serve as directors and  
27 officers of the resulting company until new directors and officers



1 are elected under the articles of incorporation and bylaws of the  
2 resulting company; and

3 (2) the directors of the converting exchange serving  
4 on the effective date serve as directors of the mutual holding  
5 company until new directors are elected under the articles of  
6 incorporation and bylaws of the mutual holding company.

7 Sec. 829.152. MEMBERSHIP INTERESTS. (a) The membership  
8 interests of the policyholders of the resulting company become  
9 membership interests in the mutual holding company. Members of the  
10 converting exchange become members of the mutual holding company in  
11 accordance with the articles of incorporation and bylaws of the  
12 mutual holding company.

13 (b) A membership interest in a mutual holding company does  
14 not constitute a security as defined by Section 4, The Securities  
15 Act (Article 581-4, Vernon's Texas Civil Statutes).

16 Sec. 829.153. RIGHTS OF MEMBERS WHOSE POLICIES ARE ISSUED  
17 AFTER ADOPTION OF CONVERSION PLAN BUT BEFORE EFFECTIVE DATE.

18 (a) On issuance of a policy after a conversion plan has been  
19 adopted by the board of directors but before the effective date of  
20 the conversion plan, the converting exchange shall send to each  
21 member to whom a policy is issued a written notice regarding the  
22 conversion plan.

23 (b) Except as provided by Subsection (c), each member  
24 insured under a property or casualty insurance policy is entitled  
25 to notice under Subsection (a) and shall be advised in a clear and  
26 conspicuous manner of the member's right to:

27 (1) cancel the policy; and

1           (2) receive a pro rata refund of unearned premiums.

2           (c) A member who has made or filed a claim under the  
3 insurance policy is not entitled to a refund under Subsection (b).  
4 A member who has exercised a right provided by Subsection (b) may  
5 not make or file a claim under the insurance policy.

6           Sec. 829.154. EFFECT OF CONVERSION ON POLICIES; SUBSCRIBER  
7 ACCOUNTS. (a) Each policy in effect on the effective date remains  
8 in effect under the terms of that policy, except that the following  
9 rights, to the extent they existed in the converting exchange in  
10 favor of policyholders or members, are extinguished on the  
11 effective date:

12           (1) any membership and voting rights;

13           (2) except as provided by Subsection (b) or in the  
14 conversion plan approved by the commissioner, a right to share in  
15 the surplus or profits of the converting exchange; and

16           (3) any assessment provisions.

17           (b) The holder of a participating policy in effect on the  
18 effective date of the conversion continues to have a right to  
19 receive dividends as provided by the participating policy.

20           (c) On the renewal date of a participating policy, the  
21 resulting company may issue to the insured a nonparticipating  
22 policy as a substitute for the participating policy.

23           (d) All the costs and expenses connected with a conversion  
24 plan shall be paid or reimbursed by the converting exchange or the  
25 resulting company.

26           (e) If a converting exchange maintains subscriber accounts  
27 as surplus, the subscriber accounts shall continue as surplus in

1 the resulting company, unless otherwise provided in a conversion  
2 plan approved by the commissioner. Subject to Subsection (f), the  
3 balances of the subscriber accounts are payable to the members to  
4 the extent and in the manner as is provided in the conversion plan.

5 (f) The board of directors of the resulting company may  
6 reduce the balances of the subscriber accounts without payment to  
7 members of the mutual holding company who were members of the  
8 converting exchange if the board of directors of the resulting  
9 company determines in the board's discretion that the amounts are  
10 necessary to support the operations of the resulting company. The  
11 board of directors of the resulting company may not, without the  
12 approval of the commissioner, reduce the balance of a subscriber  
13 account under this subsection before the third anniversary of the  
14 effective date.

15 SECTION 2. This Act takes effect immediately if it receives  
16 a vote of two-thirds of all the members elected to each house, as  
17 provided by Section 39, Article III, Texas Constitution. If this  
18 Act does not receive the vote necessary for immediate effect, this  
19 Act takes effect September 1, 2007.

\_\_\_\_\_  
President of the Senate

\_\_\_\_\_  
Speaker of the House

I hereby certify that S.B. No. 1056 passed the Senate on May 1, 2007, by the following vote: Yeas 31, Nays 0.

\_\_\_\_\_  
Secretary of the Senate

I hereby certify that S.B. No. 1056 passed the House on May 17, 2007, by the following vote: Yeas 143, Nays 0, two present not voting.

\_\_\_\_\_  
Chief Clerk of the House

Approved:

\_\_\_\_\_  
Date

\_\_\_\_\_  
Governor