

BILL ANALYSIS

C.S.H.B. 2694
By: Lucio III
Insurance
Committee Report (Substituted)

BACKGROUND AND PURPOSE

There have been calls to allow certain insurers to invest funds in excess of minimum capital and surplus in shares of bond exchange-traded funds. C.S.H.B. 2694 seeks to address this issue by providing such an authorization, under certain conditions, with respect to investments in a bond exchange-traded fund registered under the federal Investment Company Act of 1940.

CRIMINAL JUSTICE IMPACT

It is the committee's opinion that this bill does not expressly create a criminal offense, increase the punishment for an existing criminal offense or category of offenses, or change the eligibility of a person for community supervision, parole, or mandatory supervision.

RULEMAKING AUTHORITY

It is the committee's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution.

ANALYSIS

C.S.H.B. 2694 amends the Insurance Code to authorize certain insurers and insurance companies to invest funds in excess of minimum capital and surplus in shares of a bond exchange-traded fund registered as an investment company under the federal Investment Company Act of 1940, as amended, that has a principal investment strategy of investing primarily in bonds, loans, or other debt instruments, if the following conditions are met:

- the exchange-traded fund is solvent and reported at least \$10 million of net assets in the fund's latest annual or more recent certified audited financial statement;
- the exchange-traded fund is eligible for reporting as a long-term bond in the Purposes and Procedures Manual of the securities valuation office or a successor publication; and
- the amount of the insurer's investment in the exchange-traded fund does not exceed 15 percent of the insurer's funds in excess of minimum capital and surplus or, in the case of an insurance company, the amount of the insurance company's investment in the exchange-traded fund, in aggregate, does not exceed five percent of the company's assets.

C.S.H.B. 2694 authorizes the insurer or the insurance company to deposit with the Texas Department of Insurance shares of a bond exchange-traded fund as a statutory deposit if required by state law. Each bond exchange-traded fund is considered a separate issuer of shares and a business entity for purposes of statutory limits on authorized investments in the obligations of business entities by certain insurance companies. The bill authorizes an insurer, subject to applicable aggregate diversification requirements, to invest any of the insurer's funds and accumulations in a bond exchange-traded fund.

EFFECTIVE DATE

September 1, 2019.

COMPARISON OF ORIGINAL AND SUBSTITUTE

While C.S.H.B. 2694 may differ from the original in minor or nonsubstantive ways, the following summarizes the substantial differences between the introduced and committee substitute versions of the bill.

The substitute revises the conditions under which an insurer or insurance company may invest its funds in shares of a bond exchange-traded fund.

The substitute includes:

- a definition of "bond exchange-traded fund," which specifies that the fund has a principal investment strategy of investing primarily in bonds, loans, or other debt instruments;
- an authorization for an insurer, subject to aggregate diversification requirements, to invest any of its funds and accumulations in a bond exchange-traded fund; and
- a requirement for each bond exchange-traded fund in which an insurance company invests its funds to be considered a separate issuer of shares.