

By: Lucio III

H.B. No. 2694

A BILL TO BE ENTITLED

AN ACT

relating to the authority of certain insurers to make investments in bond exchange-traded funds.

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

SECTION 1. Subchapter B, Chapter 424, Insurance Code, is amended by adding Section 424.075 to read as follows:

Sec. 424.075. AUTHORIZED INVESTMENTS: BOND EXCHANGE-TRADED FUNDS. (a) In this section, "bond exchange-traded fund" means an exchange-traded fund registered as an investment company under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.), as amended, that has a principal investment strategy of investing primarily in bonds, loans, or other debt instruments.

(b) An insurer may invest the insurer's funds in excess of minimum capital and surplus in shares of a bond exchange-traded fund if:

(1) the exchange-traded fund is solvent and reported at least \$10 million of net assets in the exchange-traded fund's latest annual or more recent certified audited financial statement;

(2) 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

(3) 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.

1 (c) An insurer may deposit with the department shares of a
2 bond exchange-traded fund described by Subsection (b) as a
3 statutory deposit if state law requires a statutory deposit from
4 the insurer.

5 SECTION 2. Subchapter C, Chapter 425, Insurance Code, is
6 amended by adding Section 425.1231 to read as follows:

7 Sec. 425.1231. AUTHORIZED INVESTMENTS: BOND
8 EXCHANGE-TRADED FUNDS. (a) In this section, "bond exchange-traded
9 fund" means an exchange-traded fund registered as an investment
10 company under the Investment Company Act of 1940 (15 U.S.C. Section
11 80a-1 et seq.), as amended, that has a principal investment
12 strategy of investing primarily in bonds, loans, or other debt
13 instruments.

14 (b) An insurance company may invest the company's funds in
15 excess of minimum capital and surplus in shares of a bond
16 exchange-traded fund if:

17 (1) the exchange-traded fund is solvent and reported
18 at least \$10 million of net assets in the exchange-traded fund's
19 latest annual or more recent certified audited financial statement;

20 (2) the exchange-traded fund is eligible for reporting
21 as a long-term bond in the Purposes and Procedures Manual of the
22 securities valuation office or a successor publication; and

23 (3) the amount of the insurance company's investment
24 in the exchange-traded fund does not exceed the investment amount
25 limit in Section 425.157(b).

26 (c) An insurance company may deposit with the department
27 shares of a bond exchange-traded fund described by Subsection (b)

1 as a statutory deposit if state law requires a statutory deposit
2 from the insurance company.

3 (d) Each bond exchange-traded fund described by Subsection
4 (b) shall be considered a separate issuer of shares and a business
5 entity for purposes of Section 425.110.

6 SECTION 3. Subchapter D, Chapter 425, Insurance Code, is
7 amended by adding Section 425.2061 to read as follows:

8 Sec. 425.2061. AUTHORIZED INVESTMENTS FOR ALL FUNDS: BOND
9 EXCHANGE-TRADED FUNDS. Subject to Section 425.157(b), an insurer
10 may invest any of the insurer's funds and accumulations in a bond
11 exchange-traded fund, as defined by Section 425.1231(a).

12 SECTION 4. This Act takes effect September 1, 2019.