

BILL ANALYSIS

Senate Research Center
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H.B. 2694
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Business & Commerce
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Engrossed

AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

H.B. 2694 amends current law relating to the authority of certain insurers to make investments in bond exchange-traded funds.

RULEMAKING AUTHORITY

This bill does not expressly grant any additional rulemaking authority to a state officer, institution, or agency.

SECTION BY SECTION ANALYSIS

SECTION 1. Amends Subchapter B, Chapter 424, Insurance Code, by adding Section 424.075, as follows:

Sec. 424.075. AUTHORIZED INVESTMENTS: BOND EXCHANGE-TRADED FUNDS. (a) Defines "bond exchange-traded fund" for purposes of this section.

(b) Authorizes an insurer to 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.

(c) Authorizes an insurer to deposit with the Texas Department of Insurance (TDI) shares of a bond exchange-traded fund described by Subsection (b) as a statutory deposit if state law requires a statutory deposit from the insurer.

SECTION 2. Amends Subchapter C, Chapter 425, Insurance Code, by adding Section 425.1231, as follows:

Sec. 425.1231. AUTHORIZED INVESTMENTS: BOND EXCHANGE-TRADED FUNDS. (a) Defines "bond exchange-traded program" for purposes of this section.

(b) Authorizes an insurance company to invest the company'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 insurance company's investment in the exchange-traded fund does not exceed the investment amount limit in Section 425.157(b) (relating to prohibiting an insurance company's investments in all or any types of securities, loans, obligations, or evidences of indebtedness of a single issuer or borrower, including the issuer's or borrower's majority-owned subsidiaries or parent and the majority-owned subsidiaries of the issuer's or borrower's parent, from, in the aggregate, exceeding five percent of the company's assets).

(c) Authorizes an insurance company to deposit with TDI shares of a bond exchange-traded fund described by Subsection (b) as a statutory deposit if state law requires a statutory deposit from the insurance company.

(d) Requires each bond exchange-traded fund described by Subsection (b) to be considered a separate issuer of shares and a business entity for purposes of Section 425.110 (Authorized Investments: Obligations of and Other Investments in Business Entities).

SECTION 3. Amends Subchapter D, Chapter 425, Insurance Code, by adding Section 425.2061, as follows:

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

SECTION 4. Effective date: September 1, 2019.