

**40-2b07. Equity interests; call options.** Any life insurance company organized under any law of this state may invest by loans or otherwise, with the direction or approval of a majority of its board of directors or authorized committee thereof, any of its funds, or any part thereof in the equity interests of any business entity organized and doing business under the laws of the United States or any state, or of the District of Columbia, or of the Dominion of Canada or any province of the Dominion of Canada, in an amount, based upon cost, not exceeding 15% of its admitted assets as shown by the company's last annual report as filed with the state commissioner of insurance or a more recent quarterly financial statement as filed with the commissioner, on a form prescribed by the national association of insurance commissioners, within 45 days following the end of the calendar quarter to which the interim statement pertains. Such life insurance company may write exchange traded, covered call options on equity interests it owns and may purchase call options for the sole purpose of closing out a position taken previously with respect to one or more options having been written. The purchase of a call option for any reason other than as a closing transaction and the writing of naked, uncovered, call options are hereby prohibited. Investments in equity interests and the writing of call options shall be further limited as provided in subsections (a) through (g) except that subsections (a) through (e) shall only apply to an amount that exceeds 7.5% of a life insurance company's admitted assets.

- (a) The obligations, if any, shown on the last published annual statement of such business entity must be eligible for investment under K.S.A. 40-2b05, and amendments thereto;
- (b) cash dividends have been paid during each of the last three years preceding the date of acquisition;
- (c) the equity interest is registered with a national securities exchange regulated under the securities exchange act of 1934, as amended, or is regularly traded on a national or regional basis;
- (d) the business entity shall have earnings in three of the last five years preceding the date of acquisition;
- (e) at no time shall an insurance company invest in more than 5% of the outstanding equity interests of any one such business entity, nor an amount more than 2% of the investing insurance company's admitted assets in the outstanding equity interests of any one such business entity, determined on the basis of the cost of such equity interests to the insurance company at time of purchase;
- (f) an equity interest owned by an insurance company that is obligated under an unexpired written call option shall be valued at the lesser of the striking price or current market value. For the purposes of this subsection, "striking price" means the price per equity interest, exclusive of selling costs, the company would receive should the call option be exercised by the holder;
- (g) the provisions of subsections (b) and (d) shall not apply if at the time of acquisition:
  - (1) The issuing business entity has net assets of \$10,000,000 or more;
  - (2) the issuing business entity has a net worth of \$1,000,000 or more; and
  - (3) the issuing business entity has an aggregate market value of \$500,000,000 or more.
- (h) As used in this section:
  - (1) "Business entity" includes a sole proprietorship, corporation, limited liability company, association, partnership, joint stock company, joint venture, mutual fund, trust, joint tenancy or similar form of business organization, whether organized for profit or not-for-profit.
  - (2) "Equity interest" means any of the following:
    - (A) Common stock;
    - (B) trust certificate;
    - (C) equity investment in an investment company other than a money market mutual fund permitted under K.S.A. 40-2b24, and amendments thereto;
    - (D) investment in a common trust fund of a bank regulated by a federal or state agency;
    - (E) an ownership interest in minerals, oil or gas, the rights to which have been separated from the underlying fee interest in the real estate where the minerals, oil or gas are located;
    - (F) instruments which are mandatorily, or at the option of the issuer, convertible to equity;
    - (G) limited partnership interests;
    - (H) member interests in limited liability companies;
    - (I) warrants or other rights to acquire equity interests that are created by the person that owns or would issue the equity to be acquired; or
    - (J) any other security representing an ownership interest in a business entity.

**History:** L. 1972, ch. 179, § 7; L. 1978, ch. 172, § 2; L. 1983, ch. 156, § 7; L. 1987, ch. 160, § 10; L. 1995, ch. 22, § 2; L. 2014, ch. 43, § 5; July 1.