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See Form per 3529 3/23 (p 259)

FEB 5 1981

Commerce

HOUSE FILE 292

BY HALVORSON of Clayton

Passed House, Date 4-1-81 (p 986) Passed Senate, Date _____

Vote: Ayes 97 Nays 0 Vote: Ayes _____ Nays _____

Approved May 1, 1981

A BILL FOR

1 An Act providing that domestic fire and casualty insurers
2 may engage in certain options transactions.
3 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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HOUSE FILE 292

H-3329

1 Amend House File 292 as follows:

2 1. Page 3, line 6, by inserting after the words
3 "United States" the words "or of any of the provinces
4 of Canada".

5 2. Page 3, by striking lines 21 through 30 and
6 inserting in lieu thereof the following:

7 "2. OPTIONS TRANSACTIONS. A domestic fire and
8 casualty company may only engage in the following
9 transactions in options on an exchange and only when
10 in accordance with the rules of the exchange on which
11 the transactions take place:

12 a. The sale of exchange-traded covered options.
13 b. The purchase of exchange-traded covered options
14 solely in closing purchase transactions."

15 3. Page 4, by striking lines 28 through 33 and
16 inserting in lieu thereof the following:

17 "i. "Closing purchase transaction" means the
18 purchase on an exchange, but not otherwise, of an
19 option of the same series as the option previously
20 written, for the purpose of reducing or liquidating
21 an obligation under an exchange-traded option
22 previously written."

H-3329 FILED MARCH 23, 1981

Adopted 4/1/81 (p 985)

BY COMMITTEE ON COMMERCE
Schroeder, Chair

292

1 Section 1. Section 515.35, Code 1981, is amended to read
2 as follows:

3 515.35 INVESTMENTS.

4 1. Any company organized under ~~the provisions of~~ this
5 chapter shall invest its capital and funds in the following
6 described securities and no other:

7 ~~1-~~ a. FEDERAL AND TERRITORIAL OBLIGATIONS. Bonds or other
8 evidences of indebtedness issued or guaranteed by the United
9 States, notes or other obligations, issued by federal land
10 banks, federal intermediate credit banks, banks for
11 cooperatives, or any of all of the federal farm credit banks,
12 federal home loan bank bonds, home owners' loan corporation
13 bonds, bonds, notes or obligations representing loans and
14 advances of credit which are eligible for insurance by the
15 federal housing administrator, and bonds, notes or obligations
16 secured by real property or leasehold which the federal housing
17 administrator has insured or has committed himself or herself
18 to insure or debentures issued by such administrator.

19 ~~2-~~ b. STATE AND MUNICIPAL OBLIGATIONS. Bonds or other
20 evidences of indebtedness issued or guaranteed by the state
21 of Iowa or any other state, or any county, city, school, road,
22 drainage, or other district, or any civil subdivision or
23 governmental authority of ~~such~~ the state or states, or any
24 instrumentality of any such authorized by statute to borrow
25 money and issue securities, provided that the obligations
26 are:

27 ~~a-~~ (1) General or full faith and credit obligations of
28 the issuing or guaranteeing unit, or

29 ~~b-~~ (2) Payable from assessments levied for improvement
30 purposes and secured by a lien upon real estate, or

31 ~~c-~~ (3) Payable from especially designated revenues which
32 are specifically pledged to the payment of principal and
33 interest on such obligations.

34 ~~3-~~ c. CANADIAN GOVERNMENT AND MUNICIPAL OBLIGATIONS.

35 Bonds or other evidences of indebtedness issued or guaranteed

1 by the Dominion of Canada, or any province thereof, or any
2 municipality or district therein with a population in excess
3 of ten thousand according to the last dominion or provincial
4 census taken prior to the date of ~~such~~ the investment, which
5 are general or full faith and credit obligations of the issuing
6 or guaranteeing unit.

7 4- d. REAL ESTATE MORTGAGES. Mortgages and other interest-
8 bearing securities being first liens upon real estate within
9 this or any other state of the United States, provided that
10 at the date of acquisition the total indebtedness secured
11 by such lien shall not exceed seventy-five percent of the
12 value of the property upon which it is a lien. Improvements
13 shall not be considered in estimating value unless the owner
14 shall contract to keep the same insured in a reliable fire
15 insurance company or companies, association or associations
16 authorized to transact business in this state, during the
17 life of the loan in a sum at least equal to the excess of
18 the loan above seventy-five percent of the value of the ground,
19 exclusive of improvements, the insurance to be made payable
20 in case of loss to the company or association investing its
21 funds as its interests may appear at the time of loss. Any
22 mortgage lien upon real estate shall not for the purpose of
23 this section be held or construed to be other than a first
24 lien, by reason of the fact that drainage or other improvement
25 assessments may have been levied against the real estate
26 covered by ~~said~~ the mortgage whether the installment of ~~said~~
27 the assessments be matured or not, provided that in determining
28 the value of ~~such~~ the real estate for loan purposes the amount
29 of drainage or other assessment tax unpaid shall be first
30 deducted.

31 5- e. REAL ESTATE BONDS. Real estate bonds which are
32 first lien upon real estate within this or any other state
33 of the United States, provided the outstanding indebtedness
34 against the property does not exceed sixty percent of ~~the~~
35 its reasonable value ~~thereof~~ and provided further that the

1 average earnings of the property are at least two and one-
2 half times the interest requirements of all outstanding bonds
3 and indebtedness.

4 6- f. CORPORATE BONDS AND STOCKS. Bonds or other evidences
5 of indebtedness of any solvent corporation organized under
6 the laws of any of the states of the United States; and, not
7 to exceed thirty percent of its capital and funds, in stock
8 of any solvent dividend-paying corporation, organized under
9 the laws of the United States, or any state thereof, other
10 than the company's own stock, provided that no company may
11 invest an amount in excess of ten percent of its capital and
12 surplus in the stock and bonds of any one corporation, and
13 provided further that any such company may purchase or acquire
14 its own stock in furtherance of a general savings and
15 investment plan for employees of such company with the approval
16 of the Iowa state insurance commissioner.

17 7- g. LOANS. Any loans secured by collateral security
18 consisting of any securities enumerated in this section,
19 provided there is a margin of ten percent between the amount
20 of the loan and the value of the securities.

21 2. OPTIONS TRANSACTIONS. A domestic fire and casualty
22 company may engage in the sale of options. However, a domestic
23 fire and casualty company may only engage in the following
24 transactions in call options on an exchange and only when
25 in accordance with the rules of the exchange on which the
26 transactions take place:

27 a. The sale of exchange-traded call options solely with
28 respect to securities owned by it.

29 b. The purchase of exchange-traded call options solely
30 in closing purchase transactions.

31 3. RULES AND DEFINITION. The commissioner of insurance
32 pursuant to chapter 17A shall adopt rules regulating option
33 sales under subsection 2. In adopting the rules, the commis-
34 sioner shall be bound by the following definitions which shall
35 have the meanings given unless the context clearly requires

1 otherwise:

2 a. "Covered options" means the sale of a call option where
3 the seller owns and has in possession the underlying stock.

4 b. "Call option" means an option contract or contracts,
5 under which the holder of the option has the right, under
6 the terms of the option, to purchase a specified number of
7 shares or other units of the underlying security covered by
8 the option at a specified price per share or unit prior to
9 the fixed expiration time of the option.

10 c. "Exchange" means a national securities exchange
11 registered under the Securities Exchange Act of 1934, as
12 amended, whose rules respecting transactions in options have
13 been approved pursuant to section 19(b) of that Act.

14 d. "Exchange-traded" means traded on the floor of an ex-
15 change.

16 e. "Security or securities" means a security or securities
17 authorized to be acquired and owned by a domestic insurance
18 company under section 515.35.

19 f. "Exercise price" means the price per share or unit
20 for which the holder of a call option may purchase the
21 underlying security upon exercise of the option.

22 g. "Escrow receipt" means a receipt issued to the options
23 clearing corporation with respect to the escrowed security
24 held on deposit by a bank, trust company, or other custodian
25 approved by the options clearing corporation for that purpose.

26 h. "Escrowed security" means a security with respect to
27 which an escrow receipt has been issued.

28 i. "Closing purchase transaction" means the purchase on
29 an exchange, but not otherwise, of an exchange-traded call
30 option of the same series as an option previously sold, the
31 effect of which is to reduce or terminate the obligation of
32 an exchange-traded call option seller with respect to the
33 option previously sold.

34 j. "Class of options" means options covering the same
35 underlying security.

HOUSE FILE 292

BY HALVORSON of Clayton

(As Amended and Passed by the House)

Sub. for S.F. 402 4/8/81

Passed House, Date 4-1-81 (p. 986) Passed Senate, Date 4-21-81 (p. 1336)

Vote: Ayes 97 Nays 0 Vote: Ayes 45 Nays 0

Approved May 1, 1981

A BILL FOR

1 An Act providing that domestic fire and casualty insurers
2 may engage in certain options transactions.

3 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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House Amendments _____

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1 Section 1. Section 515.35, Code 1981, is amended to read
2 as follows:

3 515.35 INVESTMENTS.

4 1. Any company organized under ~~the provisions of~~ this
5 chapter shall invest its capital and funds in the following
6 described securities and no other:

7 ~~1-~~ a. FEDERAL AND TERRITORIAL OBLIGATIONS. Bonds or other
8 evidences of indebtedness issued or guaranteed by the United
9 States, notes or other obligations, issued by federal land
10 banks, federal intermediate credit banks, banks for
11 cooperatives, or any of all of the federal farm credit banks,
12 federal home loan bank bonds, home owners' loan corporation
13 bonds, bonds, notes or obligations representing loans and
14 advances of credit which are eligible for insurance by the
15 federal housing administrator, and bonds, notes or obligations
16 secured by real property or leasehold which the federal housing
17 administrator has insured or has committed himself or herself
18 to insure or debentures issued by such administrator.

19 ~~2-~~ b. STATE AND MUNICIPAL OBLIGATIONS. Bonds or other
20 evidences of indebtedness issued or guaranteed by the state
21 of Iowa or any other state, or any county, city, school, road,
22 drainage, or other district, or any civil subdivision or
23 governmental authority of ~~such~~ the state or states, or any
24 instrumentality of any such authorized by statute to borrow
25 money and issue securities, provided that the obligations
26 are:

27 a- (1) General or full faith and credit obligations of
28 the issuing or guaranteeing unit, or

29 b- (2) Payable from assessments levied for improvement
30 purposes and secured by a lien upon real estate, or

31 e- (3) Payable from especially designated revenues which
32 are specifically pledged to the payment of principal and
33 interest on such obligations.

34 ~~3-~~ c. CANADIAN GOVERNMENT AND MUNICIPAL OBLIGATIONS.

35 Bonds or other evidences of indebtedness issued or guaranteed

1 by the Dominion of Canada, or any province thereof, or any
2 municipality or district therein with a population in excess
3 of ten thousand according to the last dominion or provincial
4 census taken prior to the date of ~~such~~ the investment, which
5 are general or full faith and credit obligations of the issuing
6 or guaranteeing unit.

7 4- d. REAL ESTATE MORTGAGES. Mortgages and other interest-
8 bearing securities being first liens upon real estate within
9 this or any other state of the United States, provided that
10 at the date of acquisition the total indebtedness secured
11 by such lien shall not exceed seventy-five percent of the
12 value of the property upon which it is a lien. Improvements
13 shall not be considered in estimating value unless the owner
14 shall contract to keep the same insured in a reliable fire
15 insurance company or companies, association or associations
16 authorized to transact business in this state, during the
17 life of the loan in a sum at least equal to the excess of
18 the loan above seventy-five percent of the value of the ground,
19 exclusive of improvements, the insurance to be made payable
20 in case of loss to the company or association investing its
21 funds as its interests may appear at the time of loss. Any
22 mortgage lien upon real estate shall not for the purpose of
23 this section be held or construed to be other than a first
24 lien, by reason of the fact that drainage or other improvement
25 assessments may have been levied against the real estate
26 covered by ~~said~~ the mortgage whether the installment of ~~said~~
27 the assessments be matured or not, provided that in determining
28 the value of ~~such~~ the real estate for loan purposes the amount
29 of drainage or other assessment tax unpaid shall be first
30 deducted.

31 5- e. REAL ESTATE BONDS. Real estate bonds which are
32 first lien upon real estate within this or any other state
33 of the United States, provided the outstanding indebtedness
34 against the property does not exceed sixty percent of ~~the~~
35 its reasonable value ~~thereof~~ and provided further that the

1 average earnings of the property are at least two and one-
2 half times the interest requirements of all outstanding bonds
3 and indebtedness.

4 6- f. CORPORATE BONDS AND STOCKS. Bonds or other evidences
5 of indebtedness of any solvent corporation organized under
6 the laws of any of the states of the United States or of any
7 of the provinces of Canada; and, not to exceed thirty percent
8 of its capital and funds, in stock of any solvent dividend-
9 paying corporation, organized under the laws of the United
10 States, or any state thereof, other than the company's own
11 stock, provided that no company may invest an amount in excess
12 of ten percent of its capital and surplus in the stock and
13 bonds of any one corporation, and provided further that any
14 such company may purchase or acquire its own stock in
15 furtherance of a general savings and investment plan for
16 employees of such company with the approval of the Iowa state
17 insurance commissioner.

18 7- g. LOANS. Any loans secured by collateral security
19 consisting of any securities enumerated in this section,
20 provided there is a margin of ten percent between the amount
21 of the loan and the value of the securities.

22 2. OPTIONS TRANSACTIONS. A domestic fire and casualty
23 company may only engage in the following transactions in
24 options on an exchange and only when in accordance with the
25 rules of the exchange on which the transactions take place:

- 26 a. The sale of exchange-traded covered options.
27 b. The purchase of exchange-traded covered options solely
28 in closing purchase transactions.

29 3. RULES AND DEFINITION. The commissioner of insurance
30 pursuant to chapter 17A shall adopt rules regulating option
31 sales under subsection 2. In adopting the rules, the commis-
32 sioner shall be bound by the following definitions which shall
33 have the meanings given unless the context clearly requires
34 otherwise:

- 35 a. "Covered options" means the sale of a call option where

1 the seller owns and has in possession the underlying stock.

2 b. "Call option" means an option contract or contracts,
3 under which the holder of the option has the right, under
4 the terms of the option, to purchase a specified number of
5 shares or other units of the underlying security covered by
6 the option at a specified price per share or unit prior to
7 the fixed expiration time of the option.

8 c. "Exchange" means a national securities exchange
9 registered under the Securities Exchange Act of 1934, as
10 amended, whose rules respecting transactions in options have
11 been approved pursuant to section 19(b) of that Act.

12 d. "Exchange-traded" means traded on the floor of an ex-
13 change.

14 e. "Security or securities" means a security or securities
15 authorized to be acquired and owned by a domestic insurance
16 company under section 515.35.

17 f. "Exercise price" means the price per share or unit
18 for which the holder of a call option may purchase the
19 underlying security upon exercise of the option.

20 g. "Escrow receipt" means a receipt issued to the options
21 clearing corporation with respect to the escrowed security
22 held on deposit by a bank, trust company, or other custodian
23 approved by the options clearing corporation for that purpose.

24 h. "Escrowed security" means a security with respect to
25 which an escrow receipt has been issued.

26 i. "Closing purchase transaction" means the purchase on
27 an exchange, but not otherwise, of an option of the same
28 series as the option previously written, for the purpose of
29 reducing or liquidating an obligation under an exchange-traded
30 option previously written.

31 j. "Class of options" means options covering the same
32 underlying security.

33 k. "Series of options" means options of the same class
34 having the same exercise price and expiration time.

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HOUSE FILE 292

AN ACT

PROVIDING THAT DOMESTIC FIRE AND CASUALTY INSURERS MAY ENGAGE
IN CERTAIN OPTIONS TRANSACTIONS.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

Section 1. Section 515.35, Code 1981, is amended to read
as follows:

515.35 INVESTMENTS.

1. Any company organized under ~~the provisions of~~ this
chapter shall invest its capital and funds in the following
described securities and no other:

1+ a. FEDERAL AND TERRITORIAL OBLIGATIONS. Bonds or other
evidences of indebtedness issued or guaranteed by the United
States, notes or other obligations, issued by federal land
banks, federal intermediate credit banks, banks for
cooperatives, or any of all of the federal farm credit banks,
federal home loan bank bonds, home owners' loan corporation
bonds, bonds, notes or obligations representing loans and
advances of credit which are eligible for insurance by the
federal housing administrator, and bonds, notes or obligations
secured by real property or leasehold which the federal housing
administrator has insured or has committed himself or herself
to insure or debentures issued by such administrator.

2+ b. STATE AND MUNICIPAL OBLIGATIONS. Bonds or other
evidences of indebtedness issued or guaranteed by the state
of Iowa or any other state, or any county, city, school, road,
drainage, or other district, or any civil subdivision or
governmental authority of ~~such~~ the state or states, or any
instrumentality of any such authorized by statute to borrow
money and issue securities, provided that the obligations
are:

a+ (1) General or full faith and credit obligations of
the issuing or guaranteeing unit, or

b+ (2) Payable from assessments levied for improvement
purposes and secured by a lien upon real estate, or

e+ (3) Payable from especially designated revenues which
are specifically pledged to the payment of principal and
interest on such obligations.

3+ c. CANADIAN GOVERNMENT AND MUNICIPAL OBLIGATIONS.

Bonds or other evidences of indebtedness issued or guaranteed
by the Dominion of Canada, or any province thereof, or any
municipality or district therein with a population in excess
of ten thousand according to the last dominion or provincial
census taken prior to the date of ~~such~~ the investment, which
are general or full faith and credit obligations of the issuing
or guaranteeing unit.

4+ d. REAL ESTATE MORTGAGES. Mortgages and other interest-
bearing securities being first liens upon real estate within
this or any other state of the United States, provided that
at the date of acquisition the total indebtedness secured
by such lien shall not exceed seventy-five percent of the
value of the property upon which it is a lien. Improvements
shall not be considered in estimating value unless the owner
shall contract to keep the same insured in a reliable fire
insurance company or companies, association or associations
authorized to transact business in this state, during the
life of the loan in a sum at least equal to the excess of
the loan above seventy-five percent of the value of the ground,
exclusive of improvements, the insurance to be made payable
in case of loss to the company or association investing its
funds as its interests may appear at the time of loss. Any
mortgage lien upon real estate shall not for the purpose of
this section be held or construed to be other than a first
lien, by reason of the fact that drainage or other improvement
assessments may have been levied against the real estate
covered by ~~said~~ the mortgage whether the installment of ~~said~~

the assessments be matured or not, provided that in determining the value of ~~such~~ the real estate for loan purposes the amount of drainage or other assessment tax unpaid shall be first deducted.

5+ e. REAL ESTATE BONDS. Real estate bonds which are first lien upon real estate within this or any other state of the United States, provided the outstanding indebtedness against the property does not exceed sixty percent of the its reasonable value thereof and provided further that the average earnings of the property are at least two and one-half times the interest requirements of all outstanding bonds and indebtedness.

6+ f. CORPORATE BONDS AND STOCKS. Bonds or other evidences of indebtedness of any solvent corporation organized under the laws of any of the states of the United States or of any of the provinces of Canada; and, not to exceed thirty percent of its capital and funds, in stock of any solvent dividend-paying corporation, organized under the laws of the United States, or any state thereof, other than the company's own stock, provided that no company may invest an amount in excess of ten percent of its capital and surplus in the stock and bonds of any one corporation, and provided further that any ~~such~~ company may purchase or acquire its own stock in furtherance of a general savings and investment plan for employees of such company with the approval of the Iowa state insurance commissioner.

7+ g. LOANS. Any loans secured by collateral security consisting of any securities enumerated in this section, provided there is a margin of ten percent between the amount of the loan and the value of the securities.

2. OPTIONS TRANSACTIONS. A domestic fire and casualty company may only engage in the following transactions in options on an exchange and only when in accordance with the rules of the exchange on which the transactions take place:

a. The sale of exchange-traded covered options.

b. The purchase of exchange-traded covered options solely in closing purchase transactions.

3. RULES AND DEFINITION. The commissioner of insurance pursuant to chapter 17A shall adopt rules regulating option sales under subsection 2. In adopting the rules, the commissioner shall be bound by the following definitions which shall have the meanings given unless the context clearly requires otherwise:

a. "Covered options" means the sale of a call option where the seller owns and has in possession the underlying stock.

b. "Call option" means an option contract or contracts, under which the holder of the option has the right, under the terms of the option, to purchase a specified number of shares or other units of the underlying security covered by the option at a specified price per share or unit prior to the fixed expiration time of the option.

c. "Exchange" means a national securities exchange registered under the Securities Exchange Act of 1934, as amended, whose rules respecting transactions in options have been approved pursuant to section 19(b) of that Act.

d. "Exchange-traded" means traded on the floor of an exchange.

e. "Security or securities" means a security or securities authorized to be acquired and owned by a domestic insurance company under section 515.35.

f. "Exercise price" means the price per share or unit for which the holder of a call option may purchase the underlying security upon exercise of the option.

g. "Escrow receipt" means a receipt issued to the options clearing corporation with respect to the escrowed security held on deposit by a bank, trust company, or other custodian approved by the options clearing corporation for that purpose.

h. "Escrowed security" means a security with respect to which an escrow receipt has been issued.

i. "Closing purchase transaction" means the purchase on an exchange, but not otherwise, of an option of the same series as the option previously written, for the purpose of reducing or liquidating an obligation under an exchange-traded option previously written.

j. "Class of options" means options covering the same underlying security.

k. "Series of options" means options of the same class having the same exercise price and expiration time.

DELWYN STROMER
Speaker of the House

TERRY E. BRANSTAD
President of the Senate

I hereby certify that this bill originated in the House and is known as House File 292, Sixty-ninth General Assembly.

PAT H. HARPER
Chief Clerk of the House

Approved May 1, 1981

ROBERT D. RAY
Governor