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F. "Affiliate" means, as to any person, another person that, directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with the person.

G. "Asset-backed security" means a security or other instrument, excluding a mutual fund, evidencing an interest in, or the right to receive payments from, or payable from distributions on, an asset, a pool of assets or specifically divisible cash flows which are legally transferred to a trust or another special purpose bankruptcy-remote business entity, on the following conditions:

(1) The trust or other business entity is established solely for the purpose of acquiring specific types of assets or rights to cash flows, issuing securities and other instruments representing an interest in or right to receive cash flows from those assets or rights, and engaging in activities required to service the assets or rights and any credit enhancement or support features held by the trust or other business entity; and

(2) The assets of the trust or other business entity consist solely of interest bearing obligations or other contractual obligations representing the right to receive payment from the cash flows from the assets or rights. However, the existence of credit enhancements, such as letters of credit or guarantees, or support features such as swap

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M. "Collar" means an agreement to receive payments as the buyer of an option, cap or floor and to make payments as the seller of a different option, cap or floor.

N. "Commercial mortgage loan" means a loan secured by a mortgage, other than a residential mortgage loan.

O. "Construction loan" means a loan of less than three (3) years in term, made for financing the cost of construction of a building or other improvement to real estate, that is secured by the real estate.

P. "Control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract (other than a commercial contract for goods or non-management services), or otherwise, unless the power is the result of an official position with or corporate office held by the person. Control shall be presumed to exist if a person, directly or indirectly, owns, controls, holds with the power to vote or holds proxies representing ten percent (10%) or more of the voting securities of another person. This presumption may be rebutted by a showing that control does not exist in fact. The commissioner may determine, after furnishing all interested persons notice and an opportunity to be heard and making specific findings of fact to support the determination, that control exists in fact, notwithstanding the absence of a presumption to that effect.

Q. "Counterparty exposure amount" means:

(1) The net amount of credit risk attributable to a derivative instrument entered into with a business entity other than through a qualified exchange, qualified foreign exchange, or cleared through a qualified clearinghou(t)-3.8f d[(')-1.8 (32.5 (d)-1.6 (e)0.7 (e)]TJ0 -55.672 0 T-

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(3) For open transactions, market value shall be determined at the end of the most recent quarter of the insurer's fiscal year and shall be reduced by the market value of acceptable collateral held by the insurer or placed in escrow by one or both parties.

R. "Covered" means that an insurer owns or can immediately acquire, through the exercise of options, warrants or conversion rights already .5 (o)(h)-0.6 (e) (a)-2.9 (n)-.7 (d)2 (n)-.7 .6 (y)7 ((o)-47 (ie)0.

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RR. "Investment company series" means an investment portfolio of an investment company that is organized as a series company and to which assets of the investment company have been specifically allocated.

SS. "Investment practices" means transactions of the types described in Sections 16, 18, 29 or 31.

TT. "Investment subsidiary" means a subsidiary of an insurer engaged or organized to engage exclusively in the ownership and management of assets authorized as investments for the insurer if each subsidiary agrees to limit its investment in any asset so that its investments will not cause the amount of the total investment of the insurer to exceed any of the investment limitations or avoid any other provisions of this Act applicable to the insurer. As used in this subsection, the total investment of the insurer shall include:

(1) Direct investment by the insurer in an asset; and

(2) The insurer's proportionate share of an investment in an asset by an investment subsidiary of the insurer, which shall be calculated by multiplying the amount of the subsidiary's investment by the percentage of the insurer's ownership interest in the subsidiary.

UU. "Investment strategy" means the techniques and methods used by an insurer to meet its investment objectives, such as active bond portfolio management, passive bond portfolio management, interest rate anticipation, growth investing and value investing.

VV. "Letter of credit" means a clean, irrevocable and unconditional letter of credit issued or confirmed by, and payable and presentable at, a financial institution on the list of financial institutions meeting the standards for issuing letters of credit under the *Purposes and Procedures of the NAIC Investment Analysis Office* or any successor publication. To constitute acceptable collateral for the purposes of Sections 16 and 29, a letter of credit must have an expiration date beyond the term of the subject transaction.

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(2) As to a security as of any date, the price for the security on that date obtained from a generally recognized source or the most recent quotation from such a source or, to the extent no generally recognized source exists, the price for the security as determined in good faith by the parties to a transaction, plus accrued but unpaid income thereon to the extent not included in the price as of that date.

AAA. "Medium grade investment" means a rated credit instrument rated 3 by the SVO.

BBB. "Money market mutual fund" means a mutual fund that meets the conditions of 17 Code of Federal Regulations Par. 270.2a-7, under the Investment Company Act of 1940 (15 U.S.C. §§ 80a-1 *et seq.*), as amended or renumbered.

CCC. "Mortgage loan" means an obligation secured by a mortgage, deed of trust, trust deed or other consensual lien on real estate.

DDD. "Multinational development bank" means [illegible]

LLL. "Qualified bank" means:

(1) A national bank, state bank or trust company that at all times is no less than adequately capitalized as determined by standards adopted by United States banking regulators

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(2) That is, or its members are, subject to the jurisdiction of a foreign futures authority that has received regulatory comparability relief under CFTC Rule 30.10 (as set forth in Appendix C to Part 30 of the CFTC's Regulations, 17 C.F.R. Part 30) as to futures transactions in the jurisdiction where the exchange, board of trade or contract market is located; or

(3) Upon which foreign stock index futures contracts are listed that are the subject of no-action relief issued by the CFTC's Office of General Counsel, provided that an exchange, board of trade or contract market that qualifies as a "qualified foreign exchange" only under this subsection shall only be a "qualified foreign exchange" as to foreign stock index futures contracts that are the subject of no-action relief.

QQQ. (1) "Rated credit instrument" means a contractual right to receive cash or another rated credit instrument from another entity which instrument:

(a) Is rated or required to be rated by the SVO;

(b) In the case of an instrument with a maturity of 397 days or less, is issued, guaranteed or insured by an entity that is rated by, or another obligation of such entity is rated by, the SVO or by a nationally recognized statistical rating organization recognized by the SVO;

(c) In the case of an instrument with a maturity of 90 days or less is issued by a qualified bank;

(d) Is a share of a

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BBBB. "Special rated credit instrument" means a rated credit instrument that is:

(1) An instrument that is structured so that, if it is held until retired by or on behalf of the issuer, its rate of return, based on its purchase cost and any cash flow stream possible

IIII. "Warrant" means an instrument that gives the holder the right to purchase an underlying

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D. An investment or portion of an investment acquired by an insurer under Subsection C of this section shall become a nonadmitted asset three (3) years (or five (5) years in the case of mortgage loans and real estate) from the date of its acquisition, unless within that period the investment has become a qualified investment under a section of this Act other than Subsection C of this section, but an investment acquired under an agreement of bulk reinsurance, merger or consolidation may be qualified for a longer period if so provided in the plan for reinsurance, merger or consolidation as approved by the commissioner. Upon application by the insurer and a showing that the nonadmission of an asset held under Subsection C of this section would materially injure the interests of the insurer, the commissioner may extend the period for admissibility for an additional reasonable period of time.

E. Except as provided in Subsections F and H of this section, an investment shall qualify under this Act if, on the date the insurer committed to acquire the investment or on the date of its acquisition, it would have qualified under this Act. For the purposes of determining limitations contained in this Act, an insurer shall give appropriate recognition to any commitments to acquire investments.

F. (1) An investment held as an admitted asset by an insurer on the effective date of this Act which qualified under [insert reference to state's prior code provisions on insurer investments] shall remain qualified as an admitted asset under this Act.

(2) Each specific transaction constituting an investment practice of the type described in this Act that was lawfully entered into by an insurer and was in effect on the effective date of this Act shall continue to be permitted under this Act until its expiration or termination under its terms.

G. Unless otherwise specified, an investment limitation computed on the basis of an insurer's admitted assets or capital and surplus shall relate to the amount required to be shown on the statutory balance sheet of the insurer most recently required to be filed with the commissioner.

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(2) Issuance to the insurer's officers, employees or agents in connection with a plan approved by the commissioner for converting a publicly held insurer into a privately held insurer under [insert reference to the section of the code providing for approval of a conversion plan] or in connection with other stock option and employee benefit plans; or

(3) In accordance with any other plan approved by the commissioner.

Section 6. Loans to Officers and Directors

A. (1) Except as provided in Section 6B, an insurer shall not, without the prior written approval

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(3) Loans secured by the principal residence of an existing or new officer of the insurer made in connection with the officer's relocation at the insurer's request, if the loans comply with the requirements of Section 15 or 28 and the terms and conditions otherwise are the same as those generally available from unaffiliated third parties;

(4) Secured loans to an existing or new officer of the insurer made in connection with the officer's relocation at the insurer's request, if the loans:

(a) Do not have a term exceeding two (2) years;

(b) Are required to finance mortgage loans outstanding at the same time on the prior and new residences of the officer;

(c) Do not exceed an amount equal to the equity of the officer in the prior residence; and

[illegible] (d) [illegible]

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Section 10. General Three Percent Diversification, Medium and Lower Grade Investments and Canadian Investments

A. General Three Percent Diversification

(1) Except as otherwise specified in this Act, an insurer shall not acquire, directly or indirectly through an investment subsidiary, an investment under this Act if, as a result of and after giving effect to the investment, the insurer would hold more than three percent (3%) of its admitted assets in investments of all kinds issued, assumed, accepted, insured or guaranteed by a single person, or five percent (5%) of its admitted assets in investments in the voting securities of a depository institution or any company that controls the institution.

(2) This three percent (3%) limitation shall not apP K/ICID 3 BDC -21.(t)0.Als adtoM (w)-1.8 (o)-4. (t)0.6 (
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(a) The aggregate amount of medium and lower grade investments issued, assumed, guaranteed, accepted or insured by any one person or, as to asset-backed securities secured by or evidencing an interest in a single asset or pool

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B. (1) Subject to the limitations of Section 10B, but not to the limitations of Section 10A, an insurer may acquire rated credit instruments issued, assumed, guaranteed or insured by:

(a) Canada; or

(b) A government sponsored enterprise of Canada, if the instruments of the government sponsored enterprise are assumed, guaranteed or insured by Canada or are otherwise backed or supported by the full faith and credit of Canada;

(2) However, an insurer shall not acquire an instrument under this subsection if, as a result of and after giving effect to the investment, the aggregate amount of investments then held by the insurer under this subsection would exceed forty percent (40%) of its admitted assets.

C. (1) Subject to the limitations of Section 10B, but not to the limitations of Section 10A, an insurer may acquire rated credit instruments, excluding asset-backed securities:

(a) Issued by a government money market mutual fund or a listed bond mutual fund;

(b) Issued, assumed, guaranteed or insured by a government sponsored enterprise of the United States other than those eligible under Subsection A of this section;

(c) Issued, assumed, guaranteed or insured by a state, if the instruments are general obligations of the state; or

(d) Issued by a multilateral development bank;

(2) However, an insurer shall not acquire an instrument of any one fund, any one enterprise or entity or any one state under this subsection if, as a result of and after giving effect to the investment, the aggregate amount of investments then held in any one fund,

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F. An insurer shall not acquire special rated credit instruments under this section if, as a result of and after giving effect to the investment, the aggregate amount of special rated credit instruments then held by the insurer would exceed five percent (5%) of its admitted assets.

Drafting Note: In states which have not adopted Secondary Mortgage Market Enhancement Act of 1984, as amended (SMMEA) override legislation, obligations of Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and other mortgage-backed or mortgage related securities as defined in Section 106 of Title I of SMMEA (15 U.S.C. § 77r-1) may be invested in to the same extent as allowed under Section 11A, whether or not they are rated credit instruments authorized in Section 11A. Appropriate changes to Section 11 or other Sections of this Act may be necessary.

Section 12. Insurer Investment Pools

A. An insurer may acquire investments in investment pools that:

(1) Invest only in:

(a) Obligations that are rated 1 or 2 by the SVO or have an equivalent of an SVO 1 or 2 rating (or, in the absence of a 1 or 2 rating or equivalent rating, the issuer has outstanding obligations with an SVO 1 or 2 or equivalent rating) by a nationally recognized statistical rating organization recognized by the SVO and have:

(i) A remaining maturity of 397 days or less or a put that entitles the holder to receive the principal amount of the obligation which put may be exercised through maturity at specified intervals not exceeding 397 days; or

(ii) A remaining maturity of three (3) years or less and a floating interest rate that resets no less frequently than quarterly on the basis of a current short-term index (federal funds, prime rate, treasury bills, London InterBank Offered Rate (LIBOR) or commercial paper) and is subject to no maximum limit, if the obligations do not have an interest rate that varies inversely to market interest rate changes;

(b) Government money market mutual funds; or

(c) Securities lending, repurchase and reverse repurchase transactions that meet all the requirements of Section 16, except the quantitative limitations of Section 16D; or

(2) Invest only in investments which an insurer may acquire under this Act, if the insurer's proportionate interest in the amount invested in these investments does not exceed the applicable limits of this Act.

B. For an investment in an investment pool to be qualified under this Act, the investment pool shall not:

(1) Acquire securities issued, assumed, guaranteed or insured by the insurer or an affiliate of the insurer;

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(2) Borrow or incur any indebtedness for borrowed money, except for securities lending and repurchase transactions that meet the requirements of Section 16 except the quantitative limitations of Section 16D; or

(3) Permit the aggregate value of securities then loaned or sold to, purchased from or invested in any one business entity under this section to exceed ten percent (10%) of the total assets of the investment pool.

C. The limitations of Section 10A shall not apply to an insurer's investment in an investment pool, however an insurer shall not acquire an investment in an investment pool under this section if, as a result of and after giving effect to the investment, the aggregate amount of investments then held by the insurer under this section:

(1) In any one investment pool would exceed ten percent (10%) of its admitted assets;

(2) In all investment pools investing in investments permitted under Subsection A(2) of this section would exceed twenty-five percent (25%) of its admitted assets; or

(3) In all investment pools would exceed thirty-five percent (35%) of its admitted assets.

D. For an investment in an investment pool to be qualified under this Act, the manager of the investment pool shall:

(1) Be organized under the laws of the United States or a state and designated as the pool manager in a pooling agreement;

(2) Be the insurer, an affiliated insurer or a business entity affiliated with the insurer, a qualified bank, a business entity registered under the Investment Advisors Act of 1940 (15 U.S.C. §§ 80a-1 *et seq.*), as amended or, in the case of a reciprocal insurer or interinsurance exchange, its attorney-in-fact, or in the case of a United States branch of an alien insurer, its United States manager or affiliates or subsidiaries of its United States manager;

(3) Compile and maintain detailed accounting records setting forth:

(a) The cash receipts and disbursements reflecting each participant's proportionate investment in the investment pool;

(b) A complete description of all underlying assets of the investment pool (including amount, interest rate, maturity date (if any) and other appropriate designations); and

(c)

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(97%) if acceptable private mortgage insurance has been obtained; or

(c) Seventy-five percent (75%) of the fair market value of the real estate for mortgage loans that do not meet the requirements of Subparagraphs (a) or (b) of this paragraph.

(2) For purposes of Paragraph (1) of this subsection, the amount of an obligation required to be included in the calculation of the loan-to-value ratio may be reduced to the extent the obligation is insured by the Federal Housing Administration or guaranteed by the Administrator of Veterans Affairs, or their successors.

(3) A mortgage loan that is held by an insurer under Section 3F or acquired under this section and is restructured in a manner that meets the requirements of a restructured mortgage loan in accordance with the *NAIC Accounting Practices and Procedures Manual* or successor publication shall continue to qualify as a mortgage loan under this Act.

(4) Subject to the limitations of Section 10, credit lease transactions that do not qualify for investment under Section 11 with the following characteristics shall be exempt from the provisions of Paragraph (1) of this subsection:

(a) The loan amortizes over the initial fixed lease term at least in an amount sufficient so that the loan balance at the end of the lease term does not exceed the original appraised value of the real estate ;

(b) The lease payments cover or exceed the total debt service over the life of the loan;

(c) A tenant or its affiliated entity whose rated credit instruments have a SVO 1 or 2 designation or a comparable rating from a nationally recognized statistical rating organization recognized by the SVO as a full faith and credit obligation to make the lease payments;

(d) The insurer holds or is the beneficial holder of a first lien mortgage on the real estate;

(e) The expenses of the real estate are passed through to the tenant, excluding exterior, structural, parking and heating, ventilation and air conditioning replacement expenses, unless annual escrow contributions, from cash flows derived from the lease payments, cover the expense shortfall; and

(f) There is a perfected assignment of the rents due pursuant to the lease to, or for the benefit of, the insurer.

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(2) A perfected security interest in the acceptable collateral; or

(3) In the case of a jurisdiction outside of the United States, title to, or rights of a secured creditor to, the acceptable collateral.

D. The limitations of Sections 10 and 17 shall not apply to the business entity counterparty exposure created by transactions under this section. For purposes of calculations made to determine compliance with this subsection, no effect will be given to the insurer's future obligation to resell securities, in the case of a reverse repurchase transaction, or to repurchase securities, in the case of a repurchase transaction. An insurer shall not enter into a transaction under this section if, as a result of and after giving effect to the transaction:

(1) The aggregate amount of securities then loaned, sold to or purchased from any one business entity counterparty under this section would exceed five percent (5%) of its admitted assets. In calculating the amount sold to or purchased from a business entity counterparty under repurchase or reverse repurchase transactions, effect may be given to netting provisions under a master written agreement; or

(2) The aggregate amount of all securities then loaned, sold to or purchased eemeny co0.6 (r6 (

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Section 18. Derivative Transactions

An insurer may, directly or indirectly through an investment subsidiary, engage in derivative transactions under

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(3) Sales of covered puts on investments that the insurer is permitted to acquire under this (h)2.4 ( ).2 (o)-1 (c)2li-1 (c)2 6.9 (ihe.7 (e)-)-5.(d)-0.9 (s-4.7 (r)-08 (o)-3.1 (f6.9 (im)6 (u)-08 (

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(a) Cash and cash equivalents;

(b) High and medium grade investments that qualify under Sections 24 or 25;

(c) Equity interests that qualify under Section 26 and that are traded on a qualified exchange;

(d) Investments of the type set forth in Section 30 if the investments are rated in the highest generic rating category by a nationally recognized statistical rating organization recognized by the SVO for rating foreign jurisdictions and if any foreign currency exposure is effectively hedged through the maturity date of the investments;

(e) Qualifying investments of the type set forth in Subparagraphs (b), (c) or (d) of this paragraph that are acquired under Section 32;

(f) Interest and dividends receivable on qualifying investments of the type set forth in Subparagraphs (a) through (e) of this subsection; or

(g) Reinsurance recoverable on paid losses.

(2) Reserve Requirement Amount

(a) For purposes of determining the amount of assets to be maintained under this subsection, the calculation of adjusted loss reserves and loss adjustment expense reserves, adjusted unearned premium reserves and statutorily required policy and contract reserves shall be based on the amounts reported as of the most recent annual or quarterly statement date.

(b) Adjusted loss reserves and loss adjustment expense reserves shall be equal to the sum of the amounts derived from the following calculations:

(i) The result of each amount reported by the insurer as losses and loss adjustment expenses unpaid for each accident year for each individual line of business; multiplied by

(ii) The discount factor that is applicable to the line of business and accident year published by the Internal Revenue Service under Internal Revenue Code Section 846 (26 U.S.C. § 846), as amended, for the calendar year that corresponds to the most recent annual statement of the insurer; minus

(iii) Accrued retrospective premiums discounted by an average discount factor. The discount factor shall be calculated by dividing the losses

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(iv) For purposes of these calculations, the losses and loss adjustment expenses unpaid shall be determined net of anticipated salvage and subrogation, and gross of any discount for the time value of money or tabular discount.

(c) Adjusted unearned premium reserves shall be equal to the result of the following calculation:

(i) The amount reported by the insurer as unearned premium reserves; minus

(ii) The admitted asset amounts reporta0.6 (al)-(5.8 iss.25(ub)-2a5-3 (ii)2.8 (ta0.7 DC)-

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Section 25. Insurer Investment Pools

A. An insurer may acquire investments in investment pools that:

(1) Invest only in:

(a) Obligations that are rated 1 or 2 by the SVO or have an equivalent of an SVO 1 or 2 rating (or, in the absence of a 1 or 2 rating or equivalent rating, the issuer has outstanding obligations with an SVO 1 or 2 or equivalent rating) by a nationally recognized statistical rating organization recognized by the SVO and have:

(i) A remaining maturity of 397 days or less or a put that entitles the holder

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C. The limitations of Section 23A shall not apply to an insurer's investment in an investment pool, however an insurer shall not acquire an investment in an investment pool under this section if, as a result of and after giving effect to the investment, the aggregate amount of investments then held by the insurer under this section:

(1) In any one investment pool would exceed ten percent (10%) of its admitted assets;

(2) In all investment pools investing in investments permitted under Subsection A(2) of this section would exceed twenty-five percent (25%) of its admitted assets; or

(3) In all investments pools would exceed forty percent (40%) of its admitted assets.

D. For an investment in an investment pool to be qualified under this Act, the manager of the investment pool shall:

(1) Be organized under the laws of the United States or a state and designated as the pool manager in a pooling agreement;

(2) Be the insurer, an affiliated insurer or a business entity affiliated with the insurer, a qualified bank, a business entity registered under the Investment Advisors Act of 1940 (15 U.S.C. §§ 80a-1 *et seq.*), as amended or, in the case of a reciprocal insurer or interinsurance exchange, its attorney-in-fact, or in the case of a United States branch of an alien insurer, its United States manager or affiliates or subsidiaries of its United States manager;

(3) Compile and maintain detailed accounting records setting forth:

(g (5 (3) aThec4.1 (mp)-0.6 (i)-1.53101 Tc 0.026 Tw 2.186 0 Td[(a)-2.940.6 (t)0.A (S)-2.1 fon

(a) The cash receipts and disbur1 eiecg feieh:

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(1) Two percent (2%) of its admitted assets; or

(2) One half of one percent (.5%) of its admitted assets as to any single item of tangible personal property.

D. For purposes of determining compliance with the limitations of Section 23, investments acquired by an insurer under this section shall be aggrega

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program (in which case the real estate shall be deemed to be income producing).

(2) The real estate may be subject to mortgages, liens or other encumbrances, the amount of which shall, to the extent that the obligations secured by the mortgages, liens or encumbrances are without recourse to the insurer, be deducted from the amount of the investment of the insurer in the real estate for purposes of determining compliance with Subsections D(2) and D(3) of this section.

C.

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B. The insurer shall enter into a written agreement for all 5.7 (n)TJ0 Tc ansctions authorized in 5.7 (n)his sti o5.7 (n)her than dollar roll tTJ0 Tc ansctions. The written agreement shall require 5.7 (n)hat eac tTJ0 Tc terminate no more than one year from its inction or upon 5.7 (n)he earlier demand of 5.7 (n)he insurer. T.7 (n)he agreeme.7 (n)nt shall be with 5.1.6 (h)-5 (e)-4.8 (b)-5.1 (u.7 5 (s)-2.5 (ine)0.8 (s)-2.5 (s)- a qualified.-5 (bu.-5 (s)-2.5 (ine)0.8 (s)-2.5 (s)-2.4 (e)0.8 (nt)1.6 (i)-5.9 (t)1.6 (y,)-1.4 ( )-5.5 (a)-1.8 (nd if)-1 ( )-

(2) Prohibits .7 5 (s)-2.5 (e)0.8 (c)-3.3 (ur)-0.7 (it)1.7 (ie)0.7 (s)-2.5 (.7 5 (le)0.7 (n)-5 (din)-5.1 (g)1.1 (5. and in a manner tnat recognizes tne liquidity needs of tne transacion or used by the insurer for its general corporate purposes. For so long as tne transacion remains outnnnding, tne insurer, itnent orustodian shall maintain, as to acceptable collateral received in a transaction under this sion, either physiclly or tnrough the book entry systems of 5.]TJ0.001 Tw 30.(76 0 Td[(h)-0.6 (e approved by tne cmmissioner:

(1) Possession of the accentablenllateral;

(2) A pefected serity interest in the acceptable collateral; or

(3) In the case of a jurisdiction outside of the United States, title to, or rigts of a sered ceditor to, the accentablenollateral.

D. The limitations of Sections 23 and 30 shall not apply to the business entity cunterparty exposure created by transactions

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E. In a securities lending transaction, the insurer shall receive acceptable collateral having a market

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(2) One hundred twenty-five percent (125%) of the amount of its reserves, net of reinsurance, and other obligations under the contracts.

D. In addition to investments permitted under Subsections A and B of this section, an insurer that is not authorized to do business in a foreign jurisdiction but which has outstanding insurance, annuity or reinsurance contracts on lives or risks resident or located in a foreign jurisdiction and denominated in foreign currency of that jurisdiction, may acquire foreign investments respecting that foreign jurisdiction, and may acquire investments denominated in the currency of that jurisdiction subject to the limitations set forth in Section 23. However, investments made under this subsection in obligations of foreign governments, their political subdivisions and government sponsored enterprises shall not be subject to the limitations of Section 23 if those investments carry an SVO rating of 1 or 2. The aggregate amount of investments acquired by the insurer under this subsection shall not exceed 105 percent of the amount of its reserves, net of reinsurance, and other obligations under the contracts on risks resident or located in the foreign jurisdiction.

E. Investments acquired under this section shall be aggregated with investments of the same types made under all other sections of this Act, and in a similar manner, for purposes of determining compliance with the limitations, if any, contained in the other sections. Investments in obligations of foreign governments, their political subdivisions and government sponsored enterprises of these persons, except for those exempted under Subsections C and D of this section, shall be subject to the limitations of Section 23.

Section 31. Derivative Transactions

An insurer may, directly or indirectly through an investment subsidiary, engage in derivative transactions under this section under the following conditions :

A. General Conditions

(1) An insurer may use derivative instruments under this section to engage in hedging transactions and certain income generation transactions, as these terms may be further defined in regulations promulgated by the commissioner.

(2) An insurer shall be able to demonstrate to the commissioner the intended hedging

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(3) The agg

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