

806 KAR 26:020. Insider trading requirements.

RELATES TO: KRS 304.26-020-304.26-080

STATUTORY AUTHORITY: KRS 304.2-110, 304.26-090

NECESSITY, FUNCTION, AND CONFORMITY: KRS 304.2-110 provides that the Commissioner of Insurance may make reasonable rules and administrative regulations necessary for or as an aid to the effectuation of any provision of the Kentucky Insurance Code. KRS 304.26-090 gives the commissioner the authority to promulgate administrative regulations to execute the functions vested in him under KRS Chapter 304, Subtitle 26, relating to insider trading. This administrative regulation sets forth the requirements upon insiders trading in equity securities of a domestic stock insurance company.

Section 1. General Application.

(1) Definition of certain items.

(a) "Insurer" means any domestic stock insurance company with an equity security subject to the provisions of KRS 304.26-020 to 304.26-090, and not exempt thereunder.

(b) "Act" means KRS Chapter 304, Subtitle 26.

(c) "Officer" means a president, vice president, treasurer, actuary, secretary, controller, and any other person who performs for the insurer functions corresponding to those performed by the foregoing officers.

(d) "Equity security" means any stock or similar security; or any voting trust certificate of deposit for such a security; or any security convertible, with or without consideration, into such a security, or carrying any warrant or right to subscribe to or purchase such a security; or any such warrant or right.

(e) Securities "held of record."

1. For the purpose of determining whether the equity securities of an insurer are held of record by 100 or more persons, securities shall be deemed to be "held of record" by each person who is identified as the owner of such securities on records of security holders maintained by or on behalf of the insurer, subject to the following:

a. In any case where the records of security holders have not been maintained in accordance with accepted practice, any additional person who would be identified as such an owner on such records if they had been maintained in accordance with accepted practice shall be included as a holder of record.

b. Securities identified as held of record by a corporation, a partnership, a trust whether or not the trustees are named, or other organization shall be included as so held by one (1) person.

c. Securities identified as held of record by one (1) or more persons as trustees, executors, guardians, custodians or in other fiduciary capacities with respect to a single trust, estate or account shall be included as held of record by one (1) person.

d. Securities held by two (2) or more persons as co-owners shall be included as held by one (1) person.

e. Each outstanding unregistered or bearer certificate shall be included as held of record by a separate person, except to the extent that the insurer can establish that, if such securities were registered, they would be held of record, under the provisions of this rule, by a lesser number of persons.

f. Securities registered in substantially similar names where the insurer has reasons to believe because of the address or other indications that such names represent the same person, may be included as held of record by one (1) person.

2. Notwithstanding subparagraph 1 of this paragraph:

- a. Securities held, to the knowledge of the insurer, subject to a voting trust, deposit agreement or similar arrangement shall be included as held of record by the record holders of the voting trust certificates, certificates of deposit, receipts or similar evidences of interest in such securities; provided however, that the insurer may rely in good faith on such information as it is received in response to its request from a nonaffiliated insurer of the certificates or evidences of interest.
 - b. If the insurer knows or has reason to know that the form of holding securities of record is used primarily to circumvent the provisions of the Act, the beneficial owners of such securities shall be deemed to be the record owners thereof.
 - c. "Class" means all securities of an insurer which are of substantially similar character and the holders of which enjoy substantially similar rights and privileges.
- (2) Transactions exempted from the operation of KRS 304.26-040(2) and (3). Any acquisition or disposition of any equity security by a director or officer of an insurer within six (6) months prior to the date on which the Act shall first become applicable with respect to the equity securities of such insurer shall not be subject to the operation of KRS 304.26-040(2) and (3).

Section 2. Administrative Regulations under KRS 304.26-030.

- (1) Filing of statements. Initial statements of beneficial ownership of equity securities required by KRS 304.26-030 shall be filed on Form I-G-22, herein filed by reference. Statements of changes in such beneficial ownership required by KRS 304.26-030 shall be filed on Form I-G-22-1, herein filed by reference. All such statements shall be prepared and filed in accordance with the requirements of the applicable form.
- (2) Ownership of more than ten (10) percent of an equity security.
- (a) In determining, for the purpose of KRS 304.26-030 whether a person is the beneficial owner, directly, or indirectly, of more than ten (10) percent of any class of any equity security, such class shall be deemed to consist of the total amount of such class outstanding, exclusive of any securities of such class held by or for the account of the insurer or a subsidiary of the insurer; except that for the purpose of determining percentage ownership of note voting trust certificates or certificates of deposit for equity securities, the class of voting trust certificates or certificates of deposit shall be deemed to consist of the amount of voting trust certificates of deposit issuable with respect to the total amount of outstanding equity securities of the class which may be deposited under the voting trust agreement or deposit agreement in question, whether or not all of such outstanding securities have been so deposited. For the purpose of this section a person acting in good faith may rely on the information contained in the latest convention form statement filed with the commissioner with respect to the amount of securities of a class outstanding or in the case of voting trust certificates or certificates of deposit the amount thereof issuable.
 - (b) In determining for the purpose of KRS 304.26-030 whether a person is the beneficial owner, directly, or indirectly, of more than ten (10) percent of any class of equity securities, such person shall be deemed to be the beneficial owner of securities of such class which such person has the right to acquire through the exercise of presently exercisable options, warrants or rights or through the conversion of presently convertible securities. The securities subject to such options, warrants, rights or conversion privileges held by a person shall be deemed to be outstanding for the purpose of computing, in accordance with paragraph (a) of this subsection, the percentage of outstanding securities of the class owned by such person but shall not be deemed outstanding for the purpose of computing the percentage of the class owned by any other person. This paragraph shall not be construed to relieve any person of any duty to comply with the Act with respect to any equity securities consisting of options,

warrants, rights or convertible securities which are otherwise subject as a class to the Act.

(3) Disclaimer of beneficial ownership. Any person filing a statement may expressly declare therein that the filing of such statement shall not be construed as an admission that such person is, for the purpose of the Act, the beneficial owner of any equity securities covered by the statement.

(4) Exemptions from KRS 304.26-030 and 304.26-040.

(a) During the period of twelve (12) months following their appointment and qualification, securities held by the following persons shall be exempt from KRS 304.26-030 and 304.26-040:

1. Executors or administrators of the estate of a decedent;
2. Guardians or committees for an incompetent; and
3. Receivers, trustees in bankruptcy, assignees for the benefit of creditors, conservators, liquidating agents, or other similar persons duly authorized by law to administer the estate or assets of other persons.

(b) After the twelve (12) month period following their appointment or qualification the foregoing persons shall be required to file reports with respect to the securities held by the estates which they administer under KRS 304.26-030 and shall be liable for profits realized from trading in such securities pursuant to KRS 304.26-040 only when the estate being administered is a beneficial owner of more than ten (10) percent of any class of equity security of an insurer subject to the Act.

(c) Securities reacquired by or for the account of an insurer and held by it for its account shall be exempt from KRS 304.26-030 and during the time they are held by the insurer.

(5) Exemption from the Act of securities purchased or sold by odd-lot dealers. Securities purchased or sold by an odd-lot dealer in odd lots so far as reasonably necessary to carry on odd-lot transactions, or in round lots to offset odd-lot transactions previously or simultaneously executed or reasonably anticipated in the usual course of business, shall be exempt from the provisions of the administrative regulation with respect to participation by such odd-lot dealer in such transactions.

(6) Certain transactions subject to KRS 304.26-030. The acquisition or disposition of any transferable option, put, call, spread, or straddle shall be deemed such a change in the beneficial ownership of the security to which such privilege relates as to require the filing of a statement reflecting the acquisition or disposition of such privilege. Nothing in this section, however, shall exempt any person from filing the statements required upon the exercise of such option, put, call, spread or straddle.

(7) Ownership of securities held in trust.

(a) Beneficial ownership of a security for the purpose of KRS 304.26-030 shall include:

1. The ownership of securities as a trustee where either the trustee or members of his immediate family have a vested interest in the income or corpus of trust.
2. The ownership of a vested beneficial interest in a trust, and
3. The ownership of securities as a settler of a trust in which the settler has the power to revoke the trust without obtaining the consent of all the beneficiaries.

(b) Except as provided in paragraph (c) of this subsection, beneficial ownership of securities solely as a settler or beneficiary of a trust shall be exempt from the provisions of KRS 304.26-030 where less than twenty (20) percent in market value of the securities having a readily ascertainable market value held by such trust, determined as of the end of the preceding fiscal year of the trust, consist of equity securities with respect to which reports would otherwise be required. Exemption is likewise accorded from KRS 304.26-030 with respect to any obligation which would otherwise be imposed solely by reason of ownership as settler or beneficiary of

securities held in trust, where the ownership, acquisition, or disposition of such securities by the trust is made without prior approval by the settler or beneficiary. No exemption pursuant to this subsection shall, however, be acquired or lost solely as a result of changes in the value of the trust assets during any fiscal year or during any time when there is no transaction by the trust in the securities otherwise subject to the reporting requirements of KRS 304.26-030.

(c) In the event that ten (10) percent of any class of any equity security of an insurer is held in a trust, that trust and the trustee thereof as such shall be deemed a person required to file the reports specified in KRS 304.26-030.

(d) Not more than one (1) report need be filed to report any holdings or with respect to any transaction in securities held by a trust, regardless of the number of officers, directors or ten (10) percent stockholders who are either trustees, settlers, or beneficiaries of a trust, provided that the report filed shall disclose the names of all trustees, settlers, and beneficiaries who are officers, directors or ten (10) percent stockholders. A person having an interest only as a beneficiary of a trust shall not be required to file any such report so long as he relies in good faith upon an understanding that the trustee of such trust will file whatever reports might otherwise be required of such beneficiary.

(e) As used in this section the "immediate family" of a trustee means:

1. A son or daughter of the trustee, or a descendant of either,
2. A stepson or stepdaughter of the trustee,
3. The father or mother of the trustee, or an ancestor of either,
4. A stepfather or stepmother of the trustee,
5. A spouse of the trustee.

(f) In determining, for the purposes of KRS 304.26-030, whether a person is the beneficial owner, directly, or indirectly, of more than ten (10) percent of the class of any equity security, the interest of such person in the remainder of a trust shall be excluded from the computation.

(g) No report shall be required by any person, whether or not otherwise subject to the requirement of filing reports under KRS 304.26-030, with respect to his indirect interest in portfolio securities held by:

1. A pension or retirement plan holding securities of an insurer whose employees generally are the beneficiaries of the plan.
2. A business trust with over twenty-five (25) beneficiaries.

(h) Nothing in this section shall be deemed to impose any duties or liabilities with respect to reporting any transaction or holding prior to its effective date.

(8) Exemption for small transactions.

(a) Any acquisition of securities shall be exempt from KRS 304.26-030 where:

1. The person effecting the acquisition does not within six (6) months thereafter effect any disposition, otherwise than by way of gift, of securities of the same class, and
2. The person effecting such acquisition does not participate in acquisitions or in dispositions of securities of the same class having a total market value in excess of \$3,000 for any six (6) month period during which the acquisition occurs.

(b) Any acquisition or disposition of securities by way of gift, where the total amount of such gifts does not exceed \$3,000 in market value for any six (6) month period, shall be exempt from KRS 304.26-030 and may be excluded from the computations prescribed in paragraph (a)2 of this subsection.

(c) Any person exempted by paragraphs (a) or (b) of this subsection shall include in the first report filed by him after a transaction within the exemption a statement showing his acquisitions and dispositions for each six (6) month period or portion thereof which has lapsed since his last filing.

(9) Exemption from KRS 304.26-040 of transactions which need not be reported under KRS 304.26-030. Any transaction which has been or shall be exempted from the requirements of KRS 304.26-030 shall, insofar as it is otherwise subject to the provisions of KRS 304.26-040, be likewise exempted from KRS 304.26-040.

Section 3. Administrative Regulations under KRS 304.26-040.

(1) Exemption from KRS 304.26-040 of certain transactions effected in connection with a distribution.

(a) Any transaction of purchase and sale, or sale and purchase of a security which is effected in connection with the distribution of a substantial block of securities shall be exempt from the provisions of KRS 304.26-040, to the extent specified in this section as not comprehended within the purpose of said section of the Act, upon the following conditions:

1. The person effecting the transaction is engaged in the business of distributing securities and is participating in good faith, in the ordinary course of such business, in the distribution of such block of securities;

2. The security involved in the transaction is:

a. A part of such block of securities and is acquired by person effecting the transaction, with a view to the distribution thereof, from the insurer or other person on whose behalf such securities are being distributed or from a person who is participating in good faith in the distribution of such block of securities; or

b. A security purchased in good faith by or for the account of the person effecting the transaction for the purpose of stabilizing the market price of securities of the class being distributed or to cover an overallocation or other short position created in connection with such distribution; and

3. Other persons not within the purview of KRS 304.26-040 are participating in the distribution of such block of securities on terms at least as favorable as those on which such person is participating and to an extent at least equal to the aggregate participation of all persons exempted from the provisions of KRS 304.26-040 by this section. However, the performance of the functions of manager of a distributing group and the receipt of a bona fide payment for performing such functions shall not preclude an exemption which would otherwise be available under this section.

(b) The exemption of a transaction pursuant to this section with respect to the participation therein of one (1) party thereto shall not render such transaction exempt with respect to participation of any other party therein unless such other party also meets the conditions of this section.

(2) Exemption from KRS 304.26-040 of acquisitions of shares of stock and stock options under certain stock bonus, stock option or similar plans. Any acquisition of shares of stock (other than stock acquired under the exercise of an option, warrant or right) pursuant to a stock bonus, profit sharing, retirement, incentive, thrift, savings or similar plan, or any acquisition of a qualified or a restricted stock option pursuant to an employee stock purchase plan, by a director or officer of an insurer issuing such stock or stock option shall be exempt from the operation of KRS 304.26-040 if the plan meets the following conditions:

(a) The plan has been approved, directly or indirectly:

1. By the affirmative votes of the holders of a majority of the securities of such insurer present, or represented, and entitled to vote at a meeting held in accordance with the applicable laws of the Commonwealth of Kentucky; or

2. By the written consent of the holders of a majority of the securities of such insurer entitled to vote; provided, however, that if such vote or written consent was not solicited substantially in accordance with the proxy rules and administrative regulations prescribed by the National Association of Insurance Commissioners, if

any, in effect at the time of such vote or written consent, the insurer shall furnish in writing to the holders of record of the securities entitled to vote for the plan substantially the same information concerning the plan which would be required by any such rules and administrative regulations so prescribed and in effect at the time such information is furnished, if proxies to be voted with respect to the approval or disapproval of the plan were then being solicited, on or prior to the date of the first annual meeting of security holders held subsequent to the later of:

- a. The date the Act first applies to such insurer; or
 - b. The acquisition of an equity security for which exemption is claimed. Such written information may be furnished by mail to the last known address of the security holders of record within thirty (30) days prior to the date of mailing. Four (4) copies of such written information shall be filed with, or mailed for filing to, the commissioner not later than the date on which it is first sent or given to security holders of the insurer. For the purposes of this paragraph, the term "insurer" includes a predecessor corporation if the plan or obligations to participate thereunder were assumed by the insurer in connection with the succession.
- (b) If the selection of any director or officer of the insurer to whom stock may be allocated or to whom qualified, restricted or employee stock purchase plan stock options may be granted pursuant to the plan, or the determination of the number or maximum number of shares of stock which may be allocated to any such director or officer or which may be covered by qualified, restricted or employee stock purchase plan stock options granted to any such director or officer, is subject to the discretion of any person, then such discretion shall be exercised only as follows:
1. With respect to the participation of directors:
 - a. By the board of directors of the insurer, a majority of which board and a majority of the directors acting in the matter are disinterested persons;
 - b. By, or only in accordance with the recommendations of, a committee of three (3) or more persons having full authority to act in the matter, all of the members of which committee are disinterested persons; or
 - c. Otherwise in accordance with the plan, if the plan:
 - (i) Specifies the number or maximum number of shares of stock which directors may acquire or which may be subject to qualified, restricted or employee stock purchase plan stock options granted to directors and the terms upon which, and the times at which, or the periods within which, such stock may be acquired and exercised; or
 - (ii) Sets forth, by formula or otherwise, effective and determinable limitations with respect to the foregoing based upon earnings of the insurer, dividends paid, compensation received by participants, option prices, market value of shares, outstanding shares or percentages thereof outstanding from time to time, or similar factors.
 2. With respect to the participation of officers who are not directors:
 - a. By the board of directors of the insurer or a committee of three (3) or more directors; or
 - b. By, or only in accordance with the recommendation of, a committee of three (3) or more persons having full authority to act in the matter, all of the members of which committee are disinterested persons. For the purpose of this paragraph, a director or committee member shall be deemed to be a disinterested person only if such person is not at the time such discretion is exercised eligible and has not at any time within one (1) year prior thereto been eligible for selection as a person to whom stock may be allocated or to whom qualified, restricted or employee stock purchase plan stock options may be granted pursuant to the plan or any other plan

of the insurer or any of its affiliates entitling the participants therein to acquire stock or qualified, restricted or employee stock purchase plan stock options of the insurer or any of its affiliates.

3. The provisions of this section shall not apply with respect to any option granted, or other equity security acquired, prior to the date that KRS 304.26-030, 304.26-040 and 304.26-050 first become applicable with respect to any class of equity securities of any insurer.

(c) As to each participant or as to all participants, the plan effectively limits the aggregate dollar amount or the aggregate number of shares of stock which may be allocated, or which may be subject to qualified, restricted, or employee stock purchase plan stock options granted, pursuant to the plan. The limitations may be established on an annual basis, or for the duration of the plan, whether or not the plan has a fixed termination date; and may be determined either by a fixed or maximum dollar amounts of fixed or maximum number of shares or by formulas based upon earnings of the insurer, dividends paid, compensation received by participants, option prices, market value of shares, outstanding shares or percentages thereof outstanding from time to time, or similar factors which will result in an effective and determinable limitation. Such limitations may be subject to any provisions for adjustment of the plan or of stock allocable or options outstanding thereunder to prevent dilution or enlargement of rights.

(d) Unless the context otherwise requires, all terms used in this section shall have the same meaning as in the Act and in Section 1 of this administrative regulation. In addition, the following definitions apply:

1. The term "plan" includes any plan, whether or not set forth in any formal written document or documents and whether or not approved in its entirety at one time.

2. The definition of the terms "qualified stock option" and "employee stock purchase plan" that are set forth in Sections 422 and 423 of the Internal Revenue Code of 1954, as amended, are to be applied to those terms where used in this section. The term "restricted stock option" as defined in Section 424(b) of the Internal Revenue Code of 1954, as amended, shall be applied to that term as used in this section; provided, however, that for the purposes of this section an option which meets all of the conditions of that section, other than the date of issuance shall be deemed to be a "restricted stock option."

3. The term "exercise of an option, warrant or right" contained in the parenthetical clause at the beginning of this subsection shall not include:

a. The making of any election to receive under any plan an award of compensation in the form of stock or credits therefor, provided, that such election is made prior to the making of the award; and provided further that such election is irrevocable until at least six (6) months after termination of employment;

b. The subsequent crediting of such stock;

c. The making of any election as to time for delivery of such stock after termination of employment provided that such election is made at least six (6) months prior to any such delivery;

d. The fulfillment of any condition to the absolute right to receive such stock; or

e. The acceptance of certificates for shares of such stock.

(3) Exemption from KRS 304.26-040 of certain transactions in which securities are received by redeeming other securities. Any acquisition of an equity security (other than a convertible security or right to purchase a security) by a director or officer of the insurer issuing such security shall be exempt from the operation of KRS 304.26-040 upon condition that:

(a) The equity security is acquired by way of redemption of another security of an insurer substantially all of whose assets other than cash (for government bonds) consist

of securities of the insurer issuing the equity security so acquired, and which:

1. Represented substantially and in practical effect a stated or readily ascertainable amount of such equity security;
2. Had a value which was substantially determined by the value of such equity security; and
3. Conferred upon the holder the right to receive such equity security without the payment of any consideration other than the security redeemed;

(b) No security of the same class as the security redeemed was acquired by the director or officer within six (6) months prior to such redemption or is acquired within six (6) months after such redemption;

(c) The insurer issuing the equity security acquired has recognized the applicability of this subsection by appropriate corporate action.

(4) Exemption of long term profits incident to sales within six (6) months of the exercise of an option:

(a) To the extent specified in paragraph (b) of this subsection, the commissioner hereby exempts as not comprehended within the purposes of KRS 304.26-040 any transaction or transactions involving the purchase and sale, or sale and purchase, or any equity security where such purchase is pursuant to the exercise of an option or similar right either acquired more than six (6) months before its exercise, or acquired pursuant to the terms of an employment contract entered into more than six (6) months before its exercise.

(b) In respect to transactions specified in paragraph (a) of this subsection, the profits inuring to the insurer shall not exceed the difference between the proceeds of sale and the lowest market price of any security of the same class within six (6) months before or after the date of sale. Nothing in this section shall be deemed to enlarge the amount of profit which would inure to such insurer in the absence of this section.

(c) The commissioner also hereby exempts, as not comprehended within the purposes of KRS 304.26-040, the disposition of a security, purchased in a transaction specified in paragraph (a) of this subsection, pursuant to a plan or agreement for merger or consolidation, or reclassification of the insurer's securities, or for the exchange of its securities for the securities of another person which has acquired its assets, or which is in control, as defined in Section 368(c) of the Internal Revenue Code of 1954, of a person which has acquired its assets, where the terms of such plan or agreement are binding upon all stockholders of the insurer except to the extent that dissenting stockholders may be entitled, under statutory provisions or provisions contained in the certificate of incorporation, to receive the appraised or fair value of their holdings.

(d) The exemptions proved by the section shall not apply to any transaction made unlawful by KRS 304.26-050, or by any rules and administrative regulations thereunder.

(e) The burden of establishing market price of a security for the purpose of this section shall rest upon the person claiming the exemption.

(5) Exemption from KRS 304.26-040 of certain acquisitions and dispositions of securities pursuant to merger or consolidations.

(a) The following transactions shall be exempt from the provisions of KRS 304.26-040 as not comprehended within the purpose of said section:

1. The acquisition of a security of an insurer, pursuant to a merger or consolidation, in exchange for a security of a company which, prior to said merger or consolidation owned eighty-five (85) percent or more of the equity securities of all other companies in the merger or consolidation except, in the case of consolidation, the resulting company;
2. The disposition of a security, pursuant to a merger or consolidation of an insurer which, prior to said merger or consolidation, owned eighty-five (85) percent or more

of the equity securities of all other companies involved in the merger or consolidation except, in the case of consolidation, the resulting company;

3. The acquisition of a security of an insurer, pursuant to a merger or consolidation, in exchange for a security of a company which, prior to said merger or consolidation, held over eighty-five (85) percent of the combined assets of all the companies undergoing merger or consolidation, computed according to their book values prior to the merger or consolidation as determined by reference to their most recent available financial statements for a twelve (12) month period prior to the merger or consolidation.

4. The disposition of a security, pursuant to a merger or consolidation, or an insurer which, prior to said merger or consolidation, held over eighty-five (85) percent of the combined assets of all the companies undergoing merger or consolidation, computed according to their book value prior to merger or consolidation, as determined by reference to their most recent available financial statements for a twelve (12) month period prior to the merger or consolidation.

(b) A merger within the meaning of this section shall include the sale or purchase of substantially all the assets of one insurer by another in exchange for stock which is then distributed to the security holders of the insurer which sold its assets.

(c) Notwithstanding the foregoing, if an officer, director or stockholder shall make any purchase (other than a purchase exempted by this section) of a security in any company involved in the merger or consolidation and any sale (other than a sale exempted by this section) of a security in any other company involved in the merger or consolidation within any period of less than six (6) months during which the merger or consolidation took place, the exemption provided by this section shall be unavailable to such officer, director or stockholder to the extent of such purchase and sale.

(6) Exemption from KRS 304.26-040 of transactions involving the deposit or withdrawal of equity securities under a voting trust or deposit agreement. Any acquisition or disposition of an equity security involved in the deposit of such security under, or the withdrawal of such security from a voting trust or deposit agreement, and the acquisition or disposition in connection therewith of the certificate representing such security, shall be exempt from the operation of KRS 304.26-040 if substantially all of the assets held under the voting trust or deposit agreement immediately after the deposit or immediately prior to the withdrawal, as the case may be, consisted of equity securities of the same class as the security deposited or withdrawn; provided, however, that this section shall not apply to the extent that there shall have been either:

(a) A purchase of an equity security of the class deposited and a sale of any certificate representing an equity security of such class; or

(b) A sale of an equity security of the class deposited and purchase of any certificate representing an equity security of such class (otherwise than a transaction involved in such deposit or withdrawal or in a transaction exempted by any other provisions of the administrative regulations under KRS 304.26-040 within a period of less than six (6) months which includes the date of the deposit or withdrawal).

(7) Exemption from KRS 304.26-040 of certain transactions involving the conversion of equity securities.

(a) Any acquisition or disposition of an equity security involved in the conversion of an equity security which, by its terms or pursuant to the terms of the insurer's charter or other governing instruments, is convertible immediately or after a stated period of time into another equity security of the same insurer, shall be exempt from the operation of KRS 304.26-040; provided, however, that this section shall not apply to the extent that there shall have been either:

1. A purchase of any equity security of the class convertible (including any acquisition of or change in a conversion privilege) and a sale of any equity security

of the class issuable upon conversion; or

2. A sale of any equity security of the class convertible and any purchase of any equity security issuable upon conversion (otherwise than in a transaction involved in such conversion or in a transaction exempted by any other provision of the administrative regulations under KRS 304.26-040) within a period of less than six (6) months which includes the date of conversion.

(b) For the purpose of this section, an equity security shall not be deemed to be acquired or disposed of upon conversion of an equity security if the terms of the equity security converted require the payment or entail the receipt, in connection with such conversion, of cash or other property (other than equity securities involved in the conversion) equal in value at the time of conversion to more than fifteen (15) percent of the value of the equity security issued upon conversion.

(c) For the purpose of this section, an equity security shall be deemed convertible if it is convertible at the option of the holder or of some other person or by operation of the terms of the security or the governing instruments.

(8) Exemption from KRS 304.26-040 of certain transactions involving the sale of subscription rights.

(a) Any sale of a subscription right to acquire any subject security of the same insurer shall be exempt from the provision of KRS 304.26-040 to the extent prescribed in this section, as not comprehended with the purpose of said KRS 304.26-040, if:

1. Such subscription is acquired, directly or indirectly, from the insurer without the payment of consideration;

2. Such subscription right by its terms expires within forty-five (45) days after the issuance thereof;

3. Such subscription right by its terms is issued on a pro rata basis to all holders of the beneficiary security of the insurer; and

4. A registration statement under the Securities Act of 1933 is in effect as to each subject security, or the applicable terms of any exemption from such registration have been met in respect to each subject security.

(b) When used within this section the following terms have the meaning indicated:

1. The term "subscription right" means any warrant or certificate evidencing a right to subscribe to or otherwise acquire an equity security;

2. The term "beneficiary security" means a security registered pursuant to Section 12 of the Securities Exchange Act, to the holders of which a subscription right is granted;

3. The term "subject security" means a security which is the subject of a subscription right.

(c) Notwithstanding anything contained herein to the contrary, if a person purchases subscription rights for cash or other consideration, then a sale by such person of subscription rights otherwise exempted by this section will not be so exempted to the extent of such purchases within the six (6) month period preceding or following such sale.

Section 4. Administrative Regulations under KRS 304.26-050.

(1) Exemption of certain securities from KRS 304.26-050. Any security shall be exempt from the operation of KRS 304.26-050 to the extent necessary to render lawful under such section the execution by a broker of an order for an account in which he has no direct or indirect interest.

(2) Exemption from KRS 304.26-050 of certain transactions effected in connection with a distribution. Any security shall be exempt from the operation of KRS 304.26-050 to the extent necessary to render lawful under such section any sale made by or on behalf of a

dealer in connection with a distribution of substantial block of securities, upon the following condition:

- (a) The sale is represented by an overallotment in which the dealer is participating as a member of an underwriting group, or the dealer or person acting on his behalf intends in good faith to offset such sale with a security to be acquired by or on behalf of the dealer as a participant in an underwriting, selling or soliciting-dealer group of which the dealer is a member at the time of the sale, whether or not the security to be so acquired is subject to a prior offering to existing holders or some other class of persons; and
 - (b) Other persons not within the purview of KRS 304.26-050 are participating in the distribution of such block of securities on terms at least as favorable as those on which such dealer is participating and to an extent at least equal to the aggregate participation of all persons exempted from the provisions of KRS 304.26-050 by this section. However, the performance of the functions of manager of a distributing group and the receipt of a bona fide payment for performing such functions shall not preclude an exemption which would otherwise be available under this section.
- (3) Exemption from KRS 304.26-050 of sales of securities to be acquired.
- (a) Whenever any person is entitled, as an incident to this ownership of an issued security and without the payment of consideration, to receive another security "when issued" or "when distributed," the security to be acquired shall be exempt from the operation of KRS 304.26-050, provided that:
 - 1. The sale is made subject to the same conditions as those attaching to the right of acquisition, and
 - 2. Such person exercises reasonable diligence to deliver such security to the purchaser promptly after his right of acquisition matures, and
 - 3. Such person reports the sale on the appropriate form for reporting transactions by persons subject to KRS 304.26-030.
 - (b) This section shall not be construed as exempting transactions involving both a sale of a security "when issued" or "when distributed" and a sale of the security by virtue of which the seller expects to receive the "when issued" or "when distributed" security, if the two (2) transactions combined result in a sale of more units than the aggregate of those owned by the seller plus those to be received by him pursuant to his right of acquisition.

Section 5. Administrative Regulation under KRS 304.26-070. Arbitrage transactions under KRS 304.26-070: It shall be unlawful for any director or officer of an insurer to effect any foreign or domestic arbitrage transaction in any equity security of such insurer, unless he shall include such transaction in the statements required by KRS 304.26-030 and shall account to each insurer for the profit arising from transaction, as provided in KRS 304.26-040. The provisions of KRS 304.26-050 shall not apply to such arbitrage transactions. The provisions of the Act shall not apply to any bona fide foreign or domestic arbitrage transaction insofar as it is effected by any person other than such director or officer of the insurer.

(I-26.02; 1 Ky.R. 874; eff. 5-14-75; TAm eff. 8-9-2007; Crt eff. 2-26-2020; TAm eff. 3-10-2020.)