

400 Domestic Insurers

402 Trading of Equity Securities of a Domestic Stock Insurance Company [Formerly Regulation 7]

1.0 General Application

1.1 Definition of Certain Terms.

"Act" means 18 Del.C. Sub-Chapter IV, as enacted by the 1965 General Assembly.*

"Class" means all securities of an insurer which are of substantially similar character and the holders of which enjoy substantially similar rights and privileges.

"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.

"Equity security" means any stock or similar security; or any voting trust certificates or 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.

Securities "**held of record**"

- For the purpose of determining whether the equity securities of an insurer are held of record by one hundred 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:
 - 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.
 - 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 person.
 - Securities identified as held of record by one 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 person.
 - Securities held by two or more persons as co-owners shall be included as held by one person.
 - 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.
 - Securities registered in substantially similar names where the insurer has reason 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 person.
- Notwithstanding section 1.1.5.1 of this paragraph:
 - 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 is received in response to its request from a non-affiliated insurer of the certificates or evidences of interest.
 - 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.

"Insurer" means any domestic stock insurance company, with an equity security subject to the provisions of an act and not exempt thereunder.

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2.0 Transactions Exempted From the Operation of 18 Del.C. §562(c).

- 2.1 Any acquisition or disposition of any equity security by a director or officer of an insurer within six 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 18 **Del.C. §562(c)**.

3.0 Regulations Under 18 Del.C. §561

3.1 Section 561-1 Filing of Statements.

3.1.1 Initial Statements of beneficial ownership of equity securities required by §561 shall be filed on Form 3, attached hereto. Statements of changes in such beneficial ownership required by Section 561 shall be filed on Form 4, attached hereto. All such statements shall be prepared and filed in accordance with the requirements of the applicable form.

3.1.2 Any director or officer who is required to file a statement on Form 4 with respect to any change in his beneficial ownership of equity securities which occurs within 6 months after he became a director or officer of the insurer or within 6 months after equity securities of such insurer first became registered pursuant to Section 1 of the Act, shall include in the first such statement the information called for by Form 4 with respect to all changes in his beneficial ownership of equity securities of such insurer which occurred within 6 months prior to the date of the changes which requires the filing of such statements.

3.1.3 Any person who has ceased to be a director or officer of an insurer which has equity securities registered pursuant to Section 1 of the Act, or who is a director or officer of an insurer at the time it ceased to have any equity securities so registered, shall file a statement on Form 4 with respect to any change in his beneficial ownership of equity securities of such insurer which shall occur on or after the date on which he ceased to be such director or officer or the date on which the insurer ceased to have any equity securities so registered, as the case may be, if such change shall occur within 6 months after any change in his beneficial ownership of such securities prior to such date. The statement on Form 4 shall be filed within 10 days after the end of the month in which the reported change in beneficial ownership occurs.

3.2 Section 561-2 Ownership of More Than 10 Per Cent of an Equity Security.

3.2.1 In determining, for the purpose of § 561 whether a person is the beneficial owner, directly or indirectly, of more than 10 per cent 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 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 or 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.

3.3 Section 561-3 Disclaimer of Beneficial Ownership.

3.3.1 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.

3.4 Section 561-4 Exemptions From 18 **Del.C. §§561, 562**.

3.4.1 During the period of 12 months following their appointment and qualification, securities held by the following persons shall be exempt from 18 **Del.C. §§561, 562**:

- 3.4.1.1 Executors or administrators of the estate of a decedent;
- 3.4.1.2 Guardians or committees for an incompetent; and

- 3.4.1.3 Receivers, trustees in bankruptcy, assignees for the benefit of creditors, conservators, liquidating agents, and other similar person duly authorized by law to administer the estate or assets of other persons.
- 3.4.2 After the 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 18 **Del.C.** §561 and shall be liable for profits realized from trading in such securities pursuant to 18 **Del.C.** §562 only when the estate being administered is a beneficial owner of more than 10 per cent of any class of equity security of an insurer subject to Sub-Chapter IV.
- 3.4.3 Securities reacquired by or for the account of an insurer and held by it for its account shall be exempt from 18 **Del.C.** §§561, 562 during the time they are held by the insurer.
- 3.5 Section 561-5 Exemption From the Act of Securities Purchased or Sold by Odd-Lot Dealers.
 - 3.5.1 Securities purchased or sold by an odd-lot dealer (1) in odd lots so far as reasonably necessary to carry on odd-lot transactions or (2) 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 Sub-Chapter IV with respect to participation by such odd-lot dealer in such transactions.
- 3.6 Section 561-6 Certain Transactions Subject to 18 **Del.C.** §561.
 - 3.6.1 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.
- 3.7 Section 561-7 Ownership of Securities Held in Trust.
 - 3.7.1 Beneficial ownership of a security for the purpose of Section I shall include:
 - 3.7.1.1 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 the trust,
 - 3.7.1.2 the ownership of a vested beneficial interest in a trust, and
 - 3.7.1.3 the ownership of securities as a settlor of a trust in which the settlor has the power to revoke the trust without obtaining the consent of all the beneficiaries.
 - 3.7.2 Except as provided in paragraph (3.7.1.3) hereof, beneficial ownership of securities solely as a settlor or beneficiary of a trust shall be exempt from the provisions of Section 1 where less than twenty per cent 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, consists of equity securities with respect to which reports would otherwise be required. Exemption is likewise accorded from Section 1.0 with respect to any obligation which would otherwise be imposed solely by reason of ownership as settlor 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 settlor 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 18 **Del.C.** §§ 561.
 - 3.7.3 In the event that 10 per cent of any class of any equity security of an insurer is held in a trust, that trust and the trustees thereof as shall be deemed a person required to file the reports specified in 18 **Del.C.** §§ 561.
 - 3.7.4 Not more than one 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 per cent stockholders who are either trustees, settlors, or beneficiaries of a trust, provided that the report filed shall disclose the names of all trustees, settlors and beneficiaries who are officers, directors or ten per cent 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.

- 3.7.5 used in this section the "immediate family" of a trustee means:
- 3.7.5.1 a son or daughter of the trustee, or a descendant of either,
 - 3.7.5.2 a stepson or stepdaughter of the trustee,
 - 3.7.5.3 the father or mother of the trustee, or an ancestor of either,
 - 3.7.5.4 a stepfather or stepmother of the trustee,
 - 3.7.5.5 a spouse of the trustee.
- 3.7.6 For the purpose of determining whether any of the foregoing relations exists, a legally adopted child of a person shall be considered a child of such person by blood.
- 3.7.7 In determining, for the purposes of **18 Del.C. §§ 561**, whether a person is the beneficial owner, directly or indirectly, of more than 10 per cent of any class of any equity security, the interest of such person in the remainder of a trust shall be excluded from the computation.
- 3.7.8 No report shall be required by any person, whether or not otherwise subject to the requirement of filing reports under Section 1.0, with respect to his indirect interest in portfolio securities held by:
- 3.7.8.1 a pension or retirement plan holding securities of an insurer whose employees generally are the beneficiaries of the plan,
 - 3.7.8.2 a business trust with over 25 beneficiaries.
- 3.7.9 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.
- 3.8 Section 561-8 Exemption for Small Transactions.
- 3.8.1 Any acquisition of securities shall be exempt from § 561 where
- 3.8.1.1 The person effecting the acquisition does not within six months thereafter effect any disposition, otherwise than by way of gift, of securities of the same class, and
 - 3.8.1.2 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 months' period during which the acquisition occurs.
- 3.8.2 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 months' period, shall be exempt from § 561 and may be excluded from the computations prescribed in 3.8.1.2.
- 3.8.3 Any person exempted by paragraph 3.8.1 or 3.8.2 of this section 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 months' period or portion thereof which has elapsed since his last filing.
- 3.9 Section 561-9 Exemption From **18 Del.C. §562** of Transactions Which Need Not Be Reported Under **18 Del.C. §561**.
- 3.9.1 Any transaction which has been or shall be exempted from the requirements of **18 Del.C. §561** shall, insofar as it is otherwise subject to the provisions of **18 Del.C. §562**, be likewise exempted from **18 Del.C. §562**.

Form 3**INSTRUCTIONS****1. Persons Required to File Statements.**

A statement on this form is required to be filed by every person who is directly or indirectly the beneficial owner of more than 10 per cent of any class of any equity security of a domestic stock insurance company, or who is a director or an officer of such a company.

2. When Statements Are to Be Filed.

(a) Persons who hold any of the relationships specified in Instruction 1 are required to file a statement by January 31, 1966 or within 10 days after assuming such relationship, whichever date is later.

(b) Statements are not deemed to have been filed with the Commissioner until they have actually been received by him.

3. Where Statements Are to Be Filed.

One signed copy of each statement shall be filed with the Commissioner of Insurance, Dover, Del.

4. Separate Statement for Each Company.

A separate statement shall be filed with respect to the securities of each company.

5. Relationship of Reporting Person to Company.

Indicate clearly the relationship of the reporting person to the company; for example, "Director and Vice President," "Beneficial owner of more than 10 per cent of the company's common stock," etc.

6. Date as of Which Beneficial Ownership Is to Be Given.

The information as to beneficial ownership of securities shall be given as of January 31, 1966, or, in the case of persons who subsequently assume any of the relationships specified in Instruction 1, as of the date that relationship was assumed.

7. Title of Security.

The statement of the title of a security shall be such as clearly to identify the security even though there may be only one class; for example, "Class A Common Stock," "\$6 Convertible Preferred Stock," "5% Debentures Due 1965," etc.

8. Nature of Ownership.

Under "Nature of ownership," state whether ownership of the securities is "direct" or "indirect." If the ownership is indirect, i.e., through a partnership, corporation, trust or other entity, indicate, in a footnote or other appropriate manner, the name or identity of the medium through which the securities are indirectly owned. The fact that securities are held in the name of a broker or other nominee does not, of itself, constitute indirect ownership. Securities owned indirectly shall be reported on separate lines from those owned directly and also from those owned through a different type of indirect ownership.

9. Statement of Amount Owned.

In stating the amount of securities beneficially owned, give the face amount of debt securities or the number of shares or other units of other securities. In the case of securities owned indirectly, the entire amount of securities owned by the partnership, corporation, trust or other entity shall be stated. The person whose ownership is reported may, if he so desires, also indicate in a footnote, or other appropriate manner, the extent of his interest in the partnership, corporation, trust or other entity.

10. Inclusion of Additional Information.

A statement may include any additional information or explanation deemed relevant by the person filing the statement.

11. Signature.

If the statement is filed for a corporation, partnership, trust, etc., the name of the organization shall appear over the signature of the officer or other person authorized to sign the statement. If the statement is filed for an individual, it shall be signed by him or specifically on his behalf by a person authorized to sign for him.

Form 4

INSTRUCTIONS

1. Persons Required to File Statements.

Statements on this form are required to be filed by every person who at any time during any calendar month was directly or indirectly the beneficial owner of more than 10 per cent of any class of equity security of a domestic stock insurance company, or a director or officer of the company which is the issuer of such securities, and who during such month had any change in his beneficial ownership of any class of equity security of such company.

2. When Statements Are to Be Filed.

Statements are required to be filed on or before the 10th day after the end of each month in which any change in beneficial ownership has occurred. Statements are not deemed to have been filed with the Commissioner until they have actually been received by him.

3. Where Statements Are to Be Filed.

One signed copy of each statement shall be filed with the Commissioner of Insurance, Dover, Del.

4. Separate Statement for Each Company.

A separate statement shall be filed with respect to the securities of each company.

5. Relationship of Reporting Person to Company.

Indicate clearly the relationship of the reporting person to the company; for example, "Director," "Director and Vice President," "Beneficial owner of more than 10 per cent of the company's common stock," etc.

6. Transactions and Holdings to Be Reported.

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Every transaction shall be reported even though purchases and sales during the month are equal or the change involves only the nature of ownership; for example, from direct to indirect ownership. Beneficial ownership at the end of the month of all classes of securities required to be reported shall be shown even though there has been no change during the month in the ownership of securities of one or more classes.

7. Title of Security.

The statement of the title of the security shall be such as clearly to identify the security even though there may be only one class; for example, "Class A Common Stock," "\$6 Convertible Preferred Stock," "5% Debentures Due 1965," etc.

8. Date of Transaction.

The exact date (month, day and year) of each transaction shall be stated opposite the amount involved in the transaction.

9. Statement of Amounts of Securities.

In stating the amount of the securities acquired, disposed of, or beneficially owned, give the face amount of debt securities or the number of shares or other units of other securities. In the case of securities owned indirectly, i.e., through a partnership, corporation, trust or other entity, the entire amount of securities involved in the transaction or owned by the partnership, corporation, trust or other entity shall be stated. The person whose ownership is reported may, if he so desires, also indicate in a footnote, or other appropriate manner, the extent of his interest in the transaction or holdings of the partnership, corporation, trust or other entity.

10. Nature of Ownership.

Under "Nature of ownership," state whether ownership of the securities is "direct" or "indirect." If the ownership is indirect, i.e., through a partnership, corporation, trust or other entity, indicate in a footnote, or other appropriate manner, the name or identity of the medium through which the securities are indirectly owned. The fact that securities are held in the name of a broker or other nominee does not, of itself, constitute indirect ownership. Securities owned indirectly shall be reported on separate lines from those owned directly and from those owned through a different type of indirect ownership.

11. Character of Transaction.

If the transaction was with the issuer of the securities, so state. If it involved the purchase of securities through the exercise of options, so state and give the exercise price per share. If any other purchase or sale was effected otherwise than in the open market, that fact shall be indicated. If the transaction was not a purchase or sale, indicate its character; for example, gift, 5% stock dividend, etc., as the case may be. The foregoing information may be appropriately set forth in the table or under "Remarks" at the end of the table.

12. Inclusion of Additional Information.

A statement may include any additional information or explanation deemed relevant by the person filing the statement.

13. Signature.

If the statement is filed for a corporation, partnership, trust, etc., the name of the organization shall appear over the signature of the officer or other person authorized to sign the statement. If the statement is filed for an individual, it shall be signed by him or specifically on his behalf by a person authorized to sign for him.

4.0 Regulations Under 18 Del.C., §562

4.1 Section 562-1 Exemption From 18 Del.C. §562 of Certain Transactions Effected in Connection With a Distribution.

4.1.1 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 18 Del.C. §562, to the extent specified in this section as not comprehended within the purpose of said 18 Del.C. §562, upon the following conditions:

4.1.1.1 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;

4.1.1.2 The security involved in the transaction is (A) a part of such block of securities and is acquired by the 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 over-allotment or other short position created in connection with such distribution; and

- 4.1.1.3 Other persons not within the purview of 18 **Del.C.** §562 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 18 **Del.C.** §562 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.
- 4.1.2 The exemption of a transaction pursuant to this section with respect to the participation therein of one 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.
- 4.2 Section 562-2 Exemption From 18 **Del.C.** §562 of Acquisition of Shares of Stock and Stock Options Under Certain Stock Bonus, Stock Option or Similar Plans.
 - 4.2.1 Any acquisition of shares of stock (other than stock acquired upon 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 a qualified or a restricted stock option plan, or a 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 §562 if the plan meets the following conditions:
 - 4.2.1.1 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 duly held in accordance with the applicable laws of the State of Delaware, 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 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 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 Subchapter IV 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 30 days prior to the date of mailing. Four 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.
 - 4.2.1.2 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:
 - 4.2.1.2.1 With respect to the participation of directors

- 4.2.1.2.1.1 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;
- 4.2.1.2.1.2 by, or only in accordance with the recommendations of, a committee of three or more persons having full authority to act in the matter, all of the members of which committee are disinterested persons; or
- 4.2.1.2.1.3 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 or such options 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.
- 4.2.1.2.2 With respect to the participation of officers who are not directors.
- 4.2.1.2.2.1 by the board of directors of the insurer or a committee of three or more directors; or
- 4.2.1.2.2.2 by, or only in accordance with the recommendations of, a committee of three or more persons having full authority to act in the matter, all of the members of which committees 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 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.
- 4.2.1.2.3 The provisions of this paragraph shall not apply with respect to any option granted, or other equity security acquired, prior to the date that 18 **Del.C.** §§561, 562, 563 first become applicable with respect to any class of equity securities of any insurer.
- 4.2.1.2.3.1 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 fixed or maximum dollar amounts or fixed or maximum numbers 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.
- 4.2.1.2.3.2 Unless the context otherwise requires, all terms used in this section shall have the same meaning as in Subchapter IV elsewhere in these regulations. In addition, the following definitions apply:
- 4.2.1.2.3.2.1 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.

4.2.1.2.3.2.2 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."

- 4.3 Section 562-3 Exemption From 18 **Del.C.** §562 of Certain Transactions in Which Securities Are Received by Redeeming Other Securities.
- 4.3.1 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 Section 2 of the Act upon condition that
- 4.3.1.1 the equity security is acquired by way of redemption of another security of an insurer substantially all of whose assets other than cash (or Government bonds) consist of securities of the insurer issuing the equity security, so acquired, and which
- 4.3.1.1.1 represented substantially and in practical effect a stated or readily ascertainable amount of such equity security,
- 4.3.1.1.2 had a value which was substantially determined by the value of such equity security, and
- 4.3.1.1.3 conferred upon the holder the right to receive such equity security without the payment of any consideration other than the security redeemed;
- 4.3.1.2 no security of the same class as the security redeemed was acquired by the director or officer within six months prior to such redemption or is acquired within six months after such redemption;
- 4.3.1.3 the insurer issuing the equity security acquired has recognized the applicability of paragraph (a) of this section by appropriate corporate action.
- 4.4 Section 562-4 Exemption of Long Term Profits Incident to Sales Within Six Months of the Exercises of an Option.
- 4.4.1 To the extent specified in paragraph (b) of this section, the Commissioner hereby exempts as not comprehended within the purposes of 18 **Del.C.** §562 any transaction or transactions involving the purchase and sale, or sale and purchase, of any equity security where such purchase is pursuant to the exercise of an option or similar right either (1) acquired more than six months before its exercise, or (2) acquired pursuant to the terms of an employment contract entered into more than six months before its exercise.
- 4.4.2 In respect of transactions specified in paragraph (a) 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 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.
- 4.4.3 The Commissioner also hereby exempts, as not comprehended within the purposes of 18 **Del.C.** §562, the disposition of a security, purchased in a transaction specified in paragraph (a) of this section, 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.
- 4.4.4 The exemptions proved by this section shall not apply to any transaction made unlawful by 18 **Del.C.** §563 or by any rules and regulations thereunder.

- 4.4.5 The burden of establishing market price of a security for the purpose of this section shall rest upon the person claiming the exemption.
- 4.5 Section 562-5 Exemption From 18 **Del.C.** §562 of Certain Acquisitions and Dispositions of Securities Pursuant to Merger or Consolidations.
- 4.5.1 The following transactions shall be exempt from the provisions of § 562 as not comprehended within the purpose of said Section:
- 4.5.1.1 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 85 per cent 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;
- 4.5.1.2 The disposition of a security, pursuant to a merger or consolidation of an insurer which, prior to said merger or consolidation, owned 85 per cent 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;
- 4.5.1.3 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 85 per cent 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 12-month period prior to the merger or consolidation;
- 4.5.1.4 The disposition of a security, pursuant to a merger or consolidation, of an insurer which, prior to said merger or consolidation, held over 85 per cent of the combined assets of all the companies undergoing merger or consolidation, computed according to their book values prior to merger or consolidation, as determined by reference to their most recent available financial statements for a 12-month period prior to the merger or consolidation.
- 4.5.2 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.
- 4.5.3 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 months during which the merger or consolidation took place, the exemption provided by this section shall be unavailable to such officer, director, or stockholder.
- 4.6 Section 562-6 Exemption From 18 **Del.C.** §562 of Certain Securities Received Upon Surrender of Similar Equity Securities.
- 4.6.1 Any receipt by a person from an insurer of shares of stock of a class having general voting power, upon the surrender by such person of an equal number of shares of stock of the insurer of a class which does not have general voting power, pursuant to provisions of the insurer's certificate of incorporation, for the purpose of an accompanied simultaneously or followed immediately by the sale of the shares so received, shall be exempt from the operation of 18 **Del.C.** §562 as a transaction not comprehended within the purpose of said Section, if the following conditions exist:
- 4.6.1.1 The person so receiving such shares is not an officer or director, or the beneficial owner, directly or indirectly, immediately prior to such receipt, of more than 10 per cent of an equity security of the insurer;
- 4.6.1.2 The shares surrendered and the shares issued upon such surrender shall be of classes which are freely transferable and entitle the holders thereof to participate equally per share in all distributions of earnings and assets;
- 4.6.1.3 The surrender and issuance are made pursuant to provisions of a certificate of incorporation which require that the shares issued upon such surrender shall be registered upon issuance in the name of a person or persons other than the holder of the shares surrendered and may be required to be issued as of right only in connection with

- the public offering, sale and distribution of such shares and the immediate sale by such holder of such shares for that purpose, or in connection with a gift of such shares;
- 4.6.1.4 Neither the shares so surrendered nor any shares of the same class, nor other shares of the same class as those issued upon such surrender, have been or are purchased (otherwise than in a transaction exempted by this section), by the person surrendering such shares, within six months before or after such surrender or issuance.
- 4.7 Section 562-7 Exemption From 18 **Del.C.** §562 of Certain Transactions Involving an Exchange of Similar Securities.
- 4.7.1 Any acquisition or disposition of securities made in an exchange of shares of a class (or series thereof) of stock of an insurer for an equivalent number of shares of another class (or series thereof) of stock of the same insurer, pursuant to a right of conversion under the terms of the insurer's charter or other governing instruments shall be exempt from the operation of 18 **Del.C.** §562 if:
- 4.7.1.1 The shares surrendered and those acquired in exchange therefor evidence substantially the same rights and privileges except that, pursuant to the provisions of the insurer's charter or other governing instruments, the board of directors may declare and pay a lesser dividend per share on shares of the class surrendered than on shares of the class acquired in exchange therefor, or may declare and pay no dividend on shares of the class surrendered; and
- 4.7.1.2 The transaction was affected in contemplation of a public sale of the shares acquired in the exchange; Provided, that this section shall not be construed to exempt from the operation of 18 **Del.C.** §562 any purchase or sale of shares of the class surrendered and any sale or purchase of shares of the class acquired in the exchange (otherwise than in the transaction of exchange exempted by this section) within a period of less than six months.

5.0 Regulations Under 18 Del.C. §563

- 5.1 Section 563-1 Exemption of Certain Securities From 18 **Del.C.** §563.
- 5.1.1 Any security shall be exempt from the operation of 18 **Del.C.** §563 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.
- 5.2 Section 563-2 Exemption From 18 **Del.C.** §563 of Certain Transactions Effected in Connection With a Distribution.
- 5.2.1 Any security shall be exempt from the operation of 18 **Del.C.** §563 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 a substantial block of securities, upon the following conditions:
- 5.2.1.1 The sale is represented by an over-allotment in which the dealer is participating as a member of an underwriting group, or the dealer or a 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 security holders or some other class of persons; and
- 5.2.1.2 Other persons not within the purview of 18 **Del.C.** §563 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 18 **Del.C.** §563 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.
- 5.3 Section 563-3 Exemption From 18 **Del.C.** §563 of Sales of Securities to Be Acquired.

- 5.3.1 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 18 **Del.C.** §563, provided that:
- 5.3.1.1 The sale is made subject to the same conditions as those attaching to the right of acquisition, and
 - 5.3.1.2 such person exercises reasonable diligence to deliver such security to the purchaser promptly after his right of acquisition matures, and
 - 5.3.1.3 such person reports the sale on the appropriate form for reporting transactions by persons subject to **18 Del.C. §561**.
- 5.3.2 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 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.

6.0 Regulation Under 18 Del.C. §565

- 6.1 Section 565-1 Arbitrage Transactions Under **18 Del.C. §565**.
- 6.1.1 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 18 **Del.C.** §561 and shall account to such insurer for the profits arising from such transaction, as provided in 18 **Del.C.** §562 thereof. The provisions of 18 **Del.C.** §563 shall not apply to such arbitrage transactions. The provisions of Subchapter IV 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.