



# STATE OF CONNECTICUT

## INSURANCE DEPARTMENT

### INSURANCE DEPARTMENT POLICY REGARDING SECURITIES OWNERSHIP

#### I. SOURCE OF AUTHORITY

In addition to the requirements of the Code of Ethics for Public Officials, contained in Conn. Gen. Stat. §§1-84 through 1-90, and summarized both in the Office of State Ethics Guide to the Code of Ethics for Public Officials and State Employees and the Insurance Department's Ethics Statement, employees of the Insurance Department are subject to Conn. Gen. Stat. §38a-14(c)(1) and §38a-15(b), which state that examiners under those sections must be "not officers or connected with or interested in any insurance company . . . other than as a policyholder."

#### II. PROHIBITIONS

##### A. Commissioner, Deputies, Chief of Staff, Division Directors, Attorneys, Examination Division and Market Conduct Program Managers

- Ownership of any security, stock option, stock appreciation right, warrant or equivalents in a company conducting business regulated by the Department is prohibited.
- Ownership of any security, stock option, stock appreciation right, warrant or equivalents in a company conducting business regulated by the Department by a spouse or dependent child where the employee reaps the benefit of such an interest is prohibited, except where ownership of a security, stock option, stock appreciation right, warrant or equivalents by a spouse or dependent child is part of the compensation package of the employer of such spouse or dependent child. In the event this exception applies, the employee shall excuse himself or herself from reviewing any matter involving the company in which his or her spouse or dependent child owns stock or has stock options, stock appreciation rights, warrants or equivalents.
  - All employees are required to notify the Insurance Department Ethics Liaison within 30 days of employment by the Insurance Department if they hold stock, stock options, stock appreciation rights, warrants or equivalents in a company regulated by the Insurance Department.

##### B. Examiners subject to Conn. Gen. Stat. §38a-14(c)(1) and §38a-15(b): persons appointed by the Commissioner to conduct an examination of a company; Financial Regulation Division and Market Conduct Division examiners.

- Person must recuse himself or herself if they own securities, stock options, stock appreciation rights, warrants or equivalents in a company they are reviewing.
- Person must recuse himself or herself if they reap a benefit from a security, stock option, stock appreciation right, warrant or equivalents in a company they are reviewing owned by a spouse or dependent child.
- Must notify their supervisor of conflicts pursuant to Insurance Department Ethics Statement.

C. All other employees of Insurance Department

- No restriction regarding ownership of securities. Insider-trading regulations shall continue to be observed.

III. DEFINITION OF SECURITIES AND SECURITY

The terms “securities” and “security” include, without limitation, all types of common or preferred stock, secured and unsecured bonds, debentures, notes, securitized assets, and commercial paper, with a fair market value of more than \$500. The terms include both current and contingent ownership interests, including any beneficial or legal interest derived from a trust.

The terms do not include an interest in a publicly traded or publicly available mutual fund or other collective investment fund, or a widely held pension or similar fund such as a "403b" or “401k” plan. The terms exclude any beneficial or legal interest derived from a blind trust or similar arrangement.

IV. INCENTIVE STOCK OPTIONS/STOCK APPRECIATION RIGHTS/WARRANTS

An incentive stock option is a contract between an employer and an employee that provides the employee with an option to purchase a specified number of shares of the employer’s stock at a specified price (the “strike price”).

A Stock Appreciation Right (SAR) is an award which provides the holder with the ability to profit from the appreciation in value of a set number of shares of company stock over a set period of time. The valuation of a stock appreciation right operates exactly like a stock option in that the employee benefits from any increases in stock price above the price set in the award. However, unlike an option, the employee is not required to pay an exercise price to exercise them, but simply receives the net amount of the increase in the stock price in either cash or shares of company stock, depending on plan rules.

Stock Appreciation Rights are similar to stock options in that they are granted at a set price, and they generally have a vesting period and an expiration date. Once a SAR vests, an employee can exercise it at any time prior to its expiration. The proceeds will be paid either in cash, shares, or a combination of cash and shares depending on the rules of an employee’s plan. If proceeds are received in shares, they can be treated as any other shares of stock in a brokerage account.

There are two different types of Stock Appreciation Rights:

- Stand-alone SARs are granted as independent instruments and are not issued in conjunction with any stock options.
- Tandem SARs are granted in conjunction with a Non-Qualified Stock Option or an Incentive Stock Option, which entitles the holder to exercise it as an option or as a SAR. The election of one type of exercise prevents it from being exercised as another.

A warrant is a security that entitles the holder to buy the underlying stock of the issuing company at a fixed exercise price until the expiry date. Warrants and options are similar in that the two contractual financial instruments allow the holder special rights to buy securities. Both are discretionary and have expiration dates.

The conflicts analysis for an incentive stock option, stock appreciation right, warrant or an equivalent is the same as the conflicts analysis for the underlying stock. While the employee holds either an option, a stock appreciation right, warrant or the underlying stock of a company regulated by the Insurance Department, the employee may not participate personally and substantially in a particular matter that will have a direct and predictable effect on the financial interests of the issuer of the underlying stock, option, stock appreciation right, warrant or equivalent. The conflict arises when the employee from the time period when the employee is awarded the stock option, stock appreciation right, warrant or equivalent even if it has not vested.

V. LIMITED EXCEPTION FOR EMPLOYEES IN CATEGORY II.A.

Where a prohibited security, security, stock option, stock appreciation right, warrant or equivalent is acquired by an employee in Category II.A. by inheritance, gift, stock split, involuntary stock dividend, merger, acquisition, or other change in corporate ownership, exercise of preemptive right, or otherwise without specific intent to acquire the security, stock option, stock appreciation right, warrant or equivalent, or such security, stock option, stock appreciation right, warrant or equivalent were awarded to, or the security, stock option, stock appreciation right, warrant or equivalent was owned by an employee on the employee's date of hire by the Insurance Department or on the date of this policy, the employee shall have 3 months within which to dispose of the interest. During that period, the employee shall recuse himself or herself from reviewing any matter involving the company in which they acquired a security, stock option, stock appreciation right, warrant or equivalents without intent to own such a security, stock option, stock appreciation right, warrant or equivalent.

VI. EFFECTIVE DATE

This policy shall be effective 90 days after the date of the signature below.

Dated: 1<sup>st</sup> day of May 2014



Thomas B. Leonardi  
Insurance Commissioner