

ACT 68

A Bill for an Act to Regulate Insider Trading of Domestic Stock Insurance Company Equity Securities.

Be it Enacted by the Legislature of the State of Hawaii:

SECTION 1. Every person who is directly or indirectly the beneficial owner of more than ten 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 company, shall file in the office of the insurance commissioner on or before January 1, 1966, and thereafter within ten days after he becomes such beneficial owner, director or officer a statement, in such form as the insurance commissioner may prescribe, of the amount of all equity securities of such company of which he is the beneficial owner, and within ten days after the close of each calendar month, if there has been a change in such ownership during such month, shall file in the office of the insurance commissioner a statement, in such form as the insurance commissioner may prescribe, indicating his ownership at the close of the calendar month and such changes in his ownership as have occurred during such calendar month.

SECTION 2. For the purpose of preventing the unfair use of information which may have been obtained by such beneficial owner, director or officer by reason of his relationship to such company, any profit realized by him from any purchase and sale, or any sale and purchase, of an equity security of such company within any period of less than six months, unless such security was acquired in good faith in connection with a debt previously contracted, shall inure to and be recoverable by the company, irrespective of any intention on the part of such beneficial owner, director or officer in entering into such transaction of holding the security purchased or of not repurchasing the security sold for a period exceeding six months. Suit to recover such profit may be instituted in any court of competent jurisdiction by the company, or by the owner of any security of the company in the name and in behalf of the company if the company shall fail or refuse to bring such suit within sixty days after request or shall fail diligently to prosecute the same thereafter; but no such suit shall be brought more than two years after the date such profit was realized. This section shall not be construed to cover any transaction where such beneficial owner was not such both at the time of the purchase and sale, or the sale and purchase, of the security involved, or any transaction or transactions which the insurance commissioner by rules and regulations may exempt as not comprehended within the purpose of this section.

SECTION 3. It shall be unlawful for any such beneficial owner, director or officer, directly or indirectly, to sell any equity security of such company if the person selling the security or his principal (i) does not own the security sold, or (ii) if owning the security, does not deliver it against such sale within twenty days thereafter, or does not within five days after such sale deposit it in the mails or other usual channels of transportation; but no person shall be deemed to have violated this section if he proves that notwithstanding the exercise of good faith he was unable to make such delivery or deposit within such time, or that to do so would cause undue inconvenience or expense.

SECTION 4. The provisions of section 2 of this Act shall not apply to any purchase and sale, or sale and purchase, and the provisions of section 3 of this Act shall not apply to any sale, of an equity security of a domestic stock insurance company not then or theretofore held by him in an investment account, by a dealer in the ordinary course of his business and incident to the establishment or maintenance by him of a primary or secondary market (otherwise than on an exchange as defined in the Securities Exchange Act of 1934) for such security. The insurance commissioner may, by such rules and regulations as he deems necessary or appropriate in the public interest, define and prescribe terms and conditions with respect to securities held in an investment account and transactions made in the ordinary course of business and incident to the establishment or maintenance of a primary or secondary market.

SECTION 5. The provisions of sections 1, 2 and 3 of this Act shall not apply to foreign or domestic arbitrage transactions unless made in contravention of such rules and regulations as the insurance commissioner may adopt in order to carry out the purposes of this Act.

SECTION 6. The term "equity security" when used in this Act means any stock or similar 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; or any security which the insurance commissioner by such rules and regulations as he may prescribe in the public interest or for the protection of investors, designate as an equity security.

SECTION 7. The provisions of sections 1, 2 and 3 of this Act shall not apply to equity securities of a domestic stock insurance company (a) if the equity securities of such company have been registered with the United States Securities & Exchange Commission under the provisions of section 12 of the Securities Exchange Act of 1934, as amended, or (b) if the equity securities of such company are required to be registered with the United States Securities and Exchange Commission under the provisions of section 12 of the Securities Exchange Act of 1934, as amended, or (c) if such domestic stock insurance company shall not have any class of its equity securities held of record by one hundred persons on the last business day of the year next preced-

ing the year in which equity securities of the company would be subject to the provisions of sections 1, 2 and 3 of this Act except for the provisions of this subsection (c).

SECTION 8. The insurance commissioner shall have the power to make such rules and regulations as may be necessary for the execution of the functions vested in him by sections 1 through 7 of this Act, and may for such purpose classify domestic stock insurance companies, securities, and other persons or matters within his jurisdiction. No provision of sections 1, 2 and 3 of this Act imposing any liability shall apply to any act done or omitted in good faith in conformity with any rule or regulation of the insurance commissioner, notwithstanding that such rule or regulation may, after such act or omission, be amended or rescinded or determined by judicial or other authority to be invalid for any reason.

SECTION 9. This Act shall take effect on January 1, 1966.
(Approved May 11, 1965.) **S.B. 700.**