



# 125th MAINE LEGISLATURE

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Legislative Document

No. 1279

H.P. 938

House of Representatives, March 23, 2011

### **An Act Relating to Qualified Financial Contracts by Domestic Insurers**

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Reference to the Committee on Insurance and Financial Services suggested and ordered printed.

A handwritten signature in cursive script that reads "Heather J.R. Priest".

HEATHER J.R. PRIEST  
Clerk

Presented by Representative RICHARDSON of Warren.  
Cosponsored by Representative: TREAT of Hallowell.

1 **Be it enacted by the People of the State of Maine as follows:**

2 **Sec. 1. 24-A MRSA §4353, sub-§20** is enacted to read:

3 **20. Netting agreement.** "Netting agreement" means:

4 A. A contract or agreement, including terms and conditions incorporated by  
5 reference into a contract or agreement, including a master agreement, that documents  
6 one or more transactions between the parties to the agreement for or involving one or  
7 more qualified financial contracts and that provides for the netting, liquidation, setoff,  
8 termination, acceleration or closeout under or in connection with one or more  
9 qualified financial contracts or present or future payment or delivery obligations or  
10 payment or delivery entitlements under one or more qualified financial contracts,  
11 including liquidation or close-out values relating to such obligations or entitlements  
12 among the parties to the netting agreement;

13 B. Any master agreement or bridge agreement for one or more master agreements  
14 described in paragraph A; or

15 C. Any security agreement or arrangement or other credit enhancement or guarantee  
16 or reimbursement obligation related to any contract or agreement described in  
17 paragraph A or B.

18 A contract or agreement described in paragraph A or B relating to agreements or  
19 transactions that are not qualified financial contracts is considered to be a netting  
20 agreement only with respect to those agreements or transactions that are qualified  
21 financial contracts. For the purposes of this subsection, a master agreement together with  
22 all schedules, confirmations, definitions and addenda to the master agreement and  
23 transactions under any master agreement, is treated as one netting agreement.

24 **Sec. 2. 24-A MRSA §4353, sub-§21** is enacted to read:

25 **21. Qualified financial contract.** "Qualified financial contract" means a commodity  
26 contract, forward contract, repurchase agreement, securities contract, swap agreement and  
27 any similar agreement that the superintendent determines to be a qualified financial  
28 contract.

29 A. "Commodity contract" means:

30 (1) A contract for the purchase or sale of a commodity for future delivery on, or  
31 subject to the rules of, a board of trade or contract market under the federal  
32 Commodity Exchange Act or a board of trade outside the United States;

33 (2) An agreement that is subject to regulation under Section 19 of the federal  
34 Commodity Exchange Act and that is commonly known to the commodities trade  
35 as a margin account, margin contract, leverage account or leverage contract;

36 (3) An agreement or transaction that is subject to regulation under Section 4c(b)  
37 of the federal Commodity Exchange Act and that is commonly known to the  
38 commodities trade as a commodity option;

1           (4) Any combination of the agreements or transactions referred to in this  
2           paragraph; or

3           (5) Any option to enter into an agreement or transaction referred to in this  
4           paragraph.

5           B. "Forward contract," "repurchase agreement," "securities contract" and "swap  
6           agreement" have the meanings set forth in the Federal Deposit Insurance Act, 12  
7           United States Code, Section 1821(e)(8)(D), as amended from time to time.

8           **Sec. 3. 24-A MRSA §4387** is enacted to read:

9           **§4387. Qualified financial contracts**

10           **1. Qualified financial contracts.** Notwithstanding any other provision of this  
11           chapter, including any other provision of this chapter permitting the modification of  
12           contracts, or other provision of law to the contrary, a person may not be stayed or  
13           prohibited from exercising:

14           A. A contractual right to cause the termination, liquidation, acceleration or closeout  
15           of obligations under or in connection with any netting agreement or qualified  
16           financial contract with an insurer because of:

17           (1) The insolvency, financial condition or default of the insurer at any time, if  
18           the right is enforceable under applicable law other than this chapter; or

19           (2) The commencement of a formal delinquency proceeding under this chapter;

20           B. Any right under a pledge, security, collateral, reimbursement or guarantee  
21           agreement or arrangement or any other similar security agreement or arrangement or  
22           other credit enhancement relating to one or more netting agreements or qualified  
23           financial contracts;

24           C. Subject to section 4381, subsection 2, any right to offset, set off or net out any  
25           termination value, payment amount or other transfer obligation arising under or in  
26           connection with one or more qualified financial contracts when the counterparty or its  
27           guarantor is organized under the laws of the United States or a state or a foreign  
28           jurisdiction approved by the Securities Valuation Office of the National Association  
29           of Insurance Commissioners as eligible for netting; or

30           D. If a counterparty to a master netting agreement or a qualified financial contract  
31           with an insurer subject to a proceeding under this chapter terminates, liquidates,  
32           closes out or accelerates the agreement or contract, damages must be measured as of  
33           the date or dates of termination, liquidation, closeout or acceleration. The amount of  
34           a claim for damages is the actual direct compensatory damages calculated in  
35           accordance with subsection 6.

36           **2. Termination of contract.** Upon termination of a netting agreement or qualified  
37           financial contract, the net or settlement amount, if any, owed by a nondefaulting party to  
38           an insurer that is the subject of a delinquency proceeding under this chapter must be  
39           transferred to or on the order of the receiver for the insurer, even if the insurer is the  
40           defaulting party, notwithstanding any walkaway clause in the netting agreement or  
41           qualified financial contract. For purposes of this subsection, "walkaway clause" means a

1 provision in a netting agreement or a qualified financial contract that, after calculation of  
2 a value of a party's position or an amount due to or from one of the parties in accordance  
3 with its terms upon termination, liquidation or acceleration of the netting agreement or  
4 qualified financial contract, either does not create a payment obligation of a party or  
5 extinguishes a payment obligation of a party in whole or in part solely because of the  
6 party's status as a nondefaulting party. Any limited 2-way payment or first method  
7 provision in a netting agreement or qualified financial contract with an insurer that has  
8 defaulted is considered to be a full 2-way payment or 2nd method provision as against the  
9 defaulting insurer. Any such property or amount, except to the extent it is subject to one  
10 or more secondary liens or encumbrances or rights of netting, offset or setoff, must be a  
11 general asset of the insurer.

12 **3. Transfer of contract.** In making any transfer of a netting agreement or qualified  
13 financial contract of an insurer subject to a proceeding under this chapter, the receiver  
14 shall either:

15 A. Transfer to one party, other than an insurer subject to a delinquency proceeding  
16 under this chapter, all netting agreements and qualified financial contracts between a  
17 counterparty or any affiliate of the counterparty and the insurer that is the subject of  
18 the proceeding, including:

19 (1) All rights and obligations of each party under each netting agreement and  
20 qualified financial contract; and

21 (2) All property, including any guarantees or other credit enhancement, securing  
22 any claims of each party under each netting agreement and qualified financial  
23 contract; or

24 B. Transfer none of the netting agreements, qualified financial contracts, rights,  
25 obligations or property referred to in paragraph A with respect to the counterparty  
26 and any affiliate of the counterparty.

27 **4. Notice.** If a receiver for an insurer makes a transfer of one or more netting  
28 agreements or qualified financial contracts, then the receiver must use its best efforts to  
29 notify any person who is a party to the netting agreements or qualified financial contracts  
30 of the transfer by noon, the receiver's local time, on the business day following the  
31 transfer. For purposes of this subsection, "business day" means a day other than a  
32 Saturday, Sunday or any day on which the New York Stock Exchange or the Federal  
33 Reserve Bank of New York is closed.

34 **5. Transfer prior to delinquency.** Notwithstanding any other provision of this  
35 chapter and except as provided in this subsection, a receiver may not avoid a transfer of  
36 money or other property arising under or in connection with a netting agreement or  
37 qualified financial contract or any pledge, security, collateral or guarantee agreement or  
38 any other similar security arrangement or credit support document relating to a netting  
39 agreement or qualified financial contract that is made before the commencement of a  
40 delinquency proceeding under this chapter. A transfer may be avoided if the transfer was  
41 made with actual intent to hinder, delay or defraud the insurer, a receiver appointed for  
42 the insurer or existing or future creditors.

1           **6. Rights of disaffirmance or repudiation.** Disaffirmance or repudiation is  
2 governed by this subsection.

3           A. In exercising the rights of disaffirmance or repudiation of a receiver with respect  
4 to any netting agreement or qualified financial contract to which an insurer is a party,  
5 the receiver for the insurer shall either:

6                   (1) Disaffirm or repudiate all netting agreements and qualified financial  
7 contracts between a counterparty or any affiliate of the counterparty and the  
8 insurer that is the subject of the proceeding; or

9                   (2) Disaffirm or repudiate none of the netting agreements and qualified financial  
10 contracts referred to in subparagraph (1) with respect to the person or any  
11 affiliate of the person.

12           B. Notwithstanding any other provision of this chapter, any claim of a counterparty  
13 against the estate arising from the receiver's disaffirmance or repudiation of a netting  
14 agreement or qualified financial contract that has not been previously affirmed in the  
15 liquidation or immediately preceding rehabilitation proceeding must be determined  
16 and either allowed or disallowed:

17                   (1) As if the claim had arisen before the date of the filing of the petition for  
18 liquidation;

19                   (2) If a rehabilitation proceeding is converted to a liquidation proceeding, as if  
20 the claim had arisen before the date of the filing of the petition for rehabilitation;  
21 or

22                   (3) As if the claim had arisen before the issuance of any order or the  
23 commencement of any summary proceeding under this chapter.

24           The amount of the claim is the actual direct compensatory damages determined as of  
25 the date of the disaffirmance or repudiation of the netting agreement or qualified  
26 financial contract. "Actual direct compensatory damages" does not include punitive  
27 or exemplary damages, damages for lost profit or lost opportunity or damages for  
28 pain and suffering, but does include normal and reasonable costs of cover or other  
29 reasonable measures of damages used in the derivatives, securities or other market for  
30 the contract and agreement claims.

31           **7. Contractual right defined.** "Contractual right," as used in this section, includes  
32 any right set forth in a rule or bylaw of a derivatives clearing organization as defined in  
33 the federal Commodity Exchange Act, a multilateral clearing organization as defined in  
34 the Federal Deposit Insurance Corporation Improvement Act of 1991, a national  
35 securities exchange, a national securities association, a securities clearing agency or a  
36 contract market designated under the federal Commodity Exchange Act, a derivatives  
37 transaction execution facility registered under the federal Commodity Exchange Act, or a  
38 board of trade as defined in the federal Commodity Exchange Act or in a resolution of the  
39 governing board thereof and any right, whether or not evidenced in writing, arising under  
40 statutory or common law, or under law merchant, or by reason of normal business  
41 practice.

