

Interpretation of the Emerging Accounting Issues Working Group

INT 03-01: Application of SSAP No. 35 to the Florida Hurricane Catastrophe Fund

**ISSUE NULLIFIED DUE TO FLORIDA LEGISLATIVE CHANGES
SEE SSAP NO. 35 FOR GUIDANCE**

INT 03-01 Dates Discussed

March 9, 2003; June 22, 2003; March 5, 2006

INT 03-01 References

SSAP No. 35—Guaranty Fund and Other Assessments (SSAP No. 35)

INT 03-01 Issue

1. Balance-sheet treatment of assessments to property and casualty companies by the Florida Hurricane Catastrophe Fund (“FHCF”) is governed by (SSAP No. 35). This request for interpretation or interim guidance seeks recognition of a gross asset and limitation, given certain conditions, of the assessment liability required by SSAP No. 35.

2. The FHCF is a practical measure imposed by government to mitigate the financial shock attendant on the occurrence or prospect of extreme weather in developed areas with dense population. Risks from hurricanes faced by residential property insurers are clear and present; the necessity to maintain insurance capacity to cover the consequences of hurricanes is the object of the FHCF, which pays residential policyholders’ hurricane-related claims through reinsurance provided to primary companies. Depending on the severity of the weather catastrophe, the FHCF is empowered to issue debt in the form of revenue bonds for payment of residential property-casualty claims in Florida.

3. Such debt issuance in the wake of a hurricane will result in assessments for service of that debt over long periods of time to most primary property and casualty companies doing business in Florida. (Premium revenue from virtually all lines, save for workers’ compensation, is subject to the assessment.) The aggregate magnitude of FHCF assessments to subject companies is dependent on a number of variables, most prominent among which are the extent of damage caused by the weather event, the amount of capital on hand, and costs of debt and its issuance. Assessments to individual companies will be levied as a percentage of their premium in the year prior to assessment. Companies that have exited the Florida market are no longer subject to FHCF assessment and companies entering the Florida market after the event are subject to the assessment.

4. The accounting issues are:

Issue 1: The nature of FHCF debt and allocation of the consequent debt service, which are the principal drivers of FHCF assessments.

Issue 2: The absence of treatment of the revenue

5. With respect to issue one, FHCF revenue bonds are likely to be issued in decades-long maturities. Allocation of that debt service to individual companies is dependent on those companies' status in, or share of, the Florida property-casualty market.

- c) Disclosure is made of the remaining term of the assessment.

INT 03-01 Status

- 11. No further discussion is planned.