

regulatory definition “direct earned premium” includes an abbreviated reference to “insured losses” under the Program. Treasury’s intent was to reflect the statutory definition, including the specified locations, as described above. An unintended consequence of the current text of the regulatory definition of direct earned premium is that it might be read to narrow the statutory definition of “direct earned premium” to refer only to direct earned premiums for losses resulting from acts of terrorism rather than direct earned premiums on all commercial property and casualty insurance covering all risks within the specified locations.

After further review of the definition in the July final rule, Treasury is by this final rule revising the regulatory definition of “direct earned premium” in section 50.5(d) to ensure that it parallels the definition in the Act. Treasury is also revising the related provisions in the definition of direct earned premium for State licensed or admitted insurers that report to the NAIC and certain eligible surplus line carrier insurers. (Although there are no changes to some of these provisions, paragraphs (d)(1) and (d)(3) of section 50.5(d) are being set out in their entirety for ease of reading and understanding.) The effect of these changes to the current regulatory text is to clarify that direct earned premium, as provided in the Act, consists of direct earned premium for all commercial property and casualty insurance (as that term is used in the Act and Treasury’s regulations) issued by an insurer for insurance against losses at the specified locations. Consistent with the preamble discussion in the July final rule, premiums for retroactive insurance may continue to be excluded by an insurer if they are associated with losses that occurred prior to the date of enactment of the Act (November 26, 2002). An insurer receiving premiums for retroactive insurance associated with losses that occurred prior to November 26, 2002 may continue to follow the guidelines in section 50.5(d)(1) for the purposes of calculating the appropriate measure of direct earned premium.

#### Procedural Requirements

The Act established a Program to provide for loss sharing payments by the Federal Government for insured losses resulting from certified acts of terrorism. The Act became effective immediately upon the date of enactment (November 26, 2002). Treasury has issued and will be issuing additional regulations to implement the Program. This final regulation merely clarifies the current regulatory definition of “direct earned

premium” to parallel the definition in the Act. Since no one can predict if, or when, an act of terrorism may occur, there is a clear need for Treasury to modify the previously issued final rule to clarify the definition and avoid any possible reading that it is narrower than the definition in the Act. Moreover, the definition in the Act is unambiguous and the regulatory change merely clarifies the current regulatory definition to parallel the definition in the Act.

For these reasons, Treasury has determined that notice and public procedure are unnecessary and contrary to the public interest, pursuant to 5 U.S.C. 553(b)(B). For the same reasons, pursuant to 5 U.S.C. 553(d)(3), Treasury has determined that there is good cause for this final rule to become effective immediately upon publication.

This final rule is not a significant regulatory action for purposes of Executive Order 12866. Because no notice of proposed rulemaking is required, the provisions of the Regulatory Flexibility Act (5 U.S.C. chapter 6) do not apply. However, the Act and the Program are intended to provide benefits to the U.S. economy and all businesses, including small businesses, by providing a federal reinsurance backstop to commercial property and casualty insurance policyholders and spreading the risk of insured loss resulting from an act of terrorism.

#### List of Subjects in 31 CFR Part 50

Terrorism risk insurance.

#### Authority and Issuance

■ For the reasons set forth above, 31 CFR part 50 is amended as follows:

#### PART 50—TERRORISM RISK INSURANCE PROGRAM

■ 1. The authority citation for part 50 continues to read as follows:

**Authority:** 5 U.S.C. 301; 31 U.S.C. 321; Title I, Pub. L. 107–297, 116 Stat. 2322 (15 U.S.C. 6701 note).

■ 2. Section 50.5(d) introductory text is revised, and (d)(1) and (d)(3) are revised to read as follows:

#### § 50.5 Definitions.

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(d) *Direct earned premium* means a direct earned premium for all commercial property and casualty insurance issued by any insurer for insurance against all losses, including losses from an act of terrorism, occurring at the locations described in section 102(5)(A) and (B) of the Act.

(1) *State licensed or admitted insurers.* For a State licensed or admitted insurer that reports to the NAIC, direct earned premium is the premium information for commercial property and casualty insurance coverage reported by the insurer on column 2 of the NAIC Exhibit of Premiums and Losses of the NAIC Annual Statement (commonly known as Statutory Page 14). (See definition of property and casualty insurance.)

(i) Premium information as reported to the NAIC should be included in the calculation of direct earned premiums for purposes of the Program only to the extent of commercial property and casualty coverage issued by the insurer against losses occurring at the locations described in section 102(5)(A) and (B) of the Act.

(ii) Premiums for personal property and casualty insurance coverage (coverage primarily designed to cover personal, family or household risk exposures, with the exception of coverage written to insure 1 to 4 family rental dwellings owned for the business purpose of generating income for the property owner), or premiums for any other insurance coverage that does not meet the definition of commercial property and casualty insurance, should be excluded in the calculation of direct earned premiums for purposes of the Program.

(iii) Personal property and casualty insurance coverage that includes incidental coverage for commercial purposes is primarily personal coverage, and therefore premiums may be fully excluded by an insurer from the calculation of direct earned premium. For purposes of the Program, commercial coverage is incidental if less than 25 percent of the total direct earned premium is attributable to commercial coverage. Commercial property and casualty insurance coverage insuring against losses occurring at locations other than the locations described in section 102(5)(A) and (B) of the Act, or other insurance coverage that does not meet the definition of commercial property and casualty insurance, but that includes incidental coverage for commercial property and casualty insurance insuring against losses occurring at such locations, is primarily non-Program coverage, and therefore premiums also may be fully excluded by an insurer from the calculation of direct earned premium. For purposes of the Program, commercial property and casualty insurance coverage insuring against losses at the locations described in section 102(5)(A) and (B) of the Act is incidental if less than 25 percent of the