June 7, 2007

Technical Director – File Reference No. 1530-100 Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

Dear Sir or Madam,

On behalf of Oppenheimer Capital, I am offering comments on Proposed Statement of Financial Accounting Standards, Number 1530-100, Accounting for Financial Guarantee Insurance Contracts. We believe the proposal is flawed and will lead to confusion by users of financial statements. It will also create unnecessary costs and require misleading disclosures by financial guarantors, and it will create a model that conflicts with accounting principals applied by other insurance entities. We urge the FASB to reconsider several sections of the proposal.

Our comments are organized as a response to the issues listed on pages ii – vi of the Exposure Draft. We have focused on two topics that we believe to be most important.

Scope of Proposed Statement (Paragraphs 2-6) Issue 2:

We believe it is appropriate to limit the scope of the proposed statement to financial guarantee insurance contracts issued by insurance enterprises included within the scope of Statement 60, but only if the Proposed Statement is limited to the topics of claim liability and disclosure. We agree with the FASB that the different treatment of claim liabilities within the financial guarantee industry requires a more precise interpretation of FASB Statement 60.

However, we believe the sections of the proposed Statement that address unearned premium revenue (Paragraphs 7-11) and premium revenue recognition (Paragraphs 12-17) should be eliminated from the proposal. In our opinion, Paragraphs 7-17 address topics for which accounting practices are already uniform across the industry, well understood by practitioners, and consistent with the application of existing accounting standards and principals. These parts of the proposal will lead to incompatibility of standards and confusion by users of financial statements.

Unearned Premium Revenue (Paragraphs 7-11) Issues 4 and 5:

We believe the establishment of a premium receivable for financial guarantee insurance contracts for which premiums are received in installments is a flawed approach. We acknowledge the establishment of a liability for unearned premiums and a premium receivable for installment premiums is an elegant accounting solution to express upfront as well as installment premiums within a uniform approach. However, this uniformity comes at an unacceptable cost. In our opinion, the accounting principles espoused in the Exposure Draft do not correctly reflect the economics of financial guarantee contracts and are incompatible with the revenue recognition used for similar products.

Specific to a financial guarantor's receipt of revenue, we believe FASB's conclusion that installment premiums represent a form of financing rather than a renewal premium is incorrect. Moreover, the proposed bifurcation of installment premium into investment income and premium income does not, in our view, represent the underlying economics of such policies. Although it is possible to argue in theory that any insurance policy with installment payments has some form of financing associated with it, it is evident in practice that this is not true within the financial guarantee industry. As a result, installment payments are better characterized as renewal premiums.

Looking at the nature of the product, consider the fact that installment policies tend to be short-term (between three to five years), applying to pools of assets for which balances and contractual durations both change quickly and are not known with certainty at the outset. As the contract exposure (measured by both average life and principal balance) adjusts, it is logical that premiums are adjusted. While it is true that the trustee of an insured financial obligation does not typically have an option to cancel the insurance contract, a more important point is the lack of evidence suggesting financing costs have any applicability in the establishment of premium rates.

Second, the use of collateral-related cash flow to make premium payments (rather than issuer funds) also suggests an accounting model consistent with periodic renewal premiums rather than a financing agreement. In many cases, mortgages are the collateral supporting a guaranteed financial obligation. Although it is clear that mortgage insurance and a guarantee of securities backed by mortgage payments are slightly different products, it is not clear, and not reasonable, that the treatment of these related insurance products would have radically different forms of premium recognition.

Finally, from a practical standpoint, if the use of installment premiums were intended to act as a financing, one would expect analysts, investors, and the financial guarantors to discuss the terms of such financial arrangements, but in fact no such distinctions or terms are ever present in the analysis of installment premiums. For all of these reasons, we believe the current approach to revenue recognition is adequate and superior to the proposed approach.

Premium Revenue Recognition (Paragraphs 12-17) Issues 8 and 10:

We believe the proposed approach to premium revenue recognition is flawed because it ignores the passage of time as the primary component of the reduction of risk within an insured financial obligation. The exposure draft notes that the FASB turned to the short-duration insurance company model to develop its approach to premium recognition for insured financial obligations. Statement 60 states:

Premiums from short-duration contracts ordinarily shall be recognized as revenue over the period of the contract in proportion to the amount of insurance protection provided. For those few types of contracts for which the period of risk differs significantly from the contract period, premiums shall be recognized as revenue over the period of risk in proportion to the amount of insurance protection provided. That generally results in premiums being recognized as revenue evenly over the contract period (or the period of risk, if different), except for those few cases in which the amount of insurance protection declines according to a predetermined schedule.

In the application of Statement 60, it is important to note that the insured contractual payment is a policy limit, similar to the limit of coverage in an automobile policy or property catastrophe coverage. As a result, we believe it is faulty logic to base the recognition of premium on the reduction of insured contractual payments, just as it would be unreasonable to base the recognition of automobile premiums on the depreciation of the automobile, which would lower the "amount at risk" within a physical damage policy.

We believe the flawed logic of the Exposure Draft is best seen through the use of an example. Applying Statement 60 to a zero-coupon bond, it is apparent that the amount of insurance protection provided (\$100 million in the example in the Exposure Draft) is established from the outset of the contract and does not change. Following Statement 60, premiums should be recognized "evenly over the contract period," with "the amount of insurance protection provided" (properly defined as \$100 million for a specified period of time) held constant, other than the reduction of risk associated with the passage of time.

The dollar amount of risk exposure does not decline, but the risk or remaining total probability of incurring a cost relating to the exposure is expected to decline by virtue of the passage of time. This interpretation is consistent with multiple other insurance contracts that have a limit of coverage that is fixed, with the risk of loss declining over time.

In discussing its concern with recognizing revenue "evenly over the contract term" (see Paragraph B16 of the Exposure Draft), the FASB notes:

....there might not be a reduction of the economic risk associated with the insured financial obligation until maturity, when the insured contractual payments are made by the issuer of the insured financial obligation. That might be the case if, for example, the credit standing of the issuer of the insured financial obligation deteriorates over the contract term.

We agree that the scenario introduced by the FASB is plausible, but disagree with the proper accounting treatment. It is only one scenario of many, and is not known at the time the contract is written and the assumption of risk is taken. Employing the FASB's reasoning, it would be difficult to justify the recognition of any insurance premium within any contract period because there is always the possibility of loss until the policy lapses. This is true of mortgage insurance, homeowner policies, etc. The essential point is, all else being equal, the passage of time reduces uncertainty for the insurer and usually reduces the risk of loss, whether the loss is due to an automobile accident, storm, or financial mishap. To convince itself that time is an essential component of risk reduction, FASB need only ask whether the "insurance protection provided" for a zero-coupon bond would be the same for a policy issued with a term of one week and for a term of ten years. The longer duration policy would clearly provide greater "insurance protection," and would be priced accordingly. The premium should also be earned accordingly.

To address FASB's specific concern of credit erosion, should the credit standing of the issuer of the insured financial obligation deteriorate, we believe the responsibility to establish a claim liability and the stricter disclosures proposed in the Exposure Draft should be adequate to reflect the altered circumstances. Relevant to the ability to track and establish claim liabilities, it is important that FASB recognize the extremely low frequency of claims within the financial guarantee industry, which makes the erosion of credit the exception and not the likely behavior of the vast majority of insured credits. This point is important because we consider it unsound theory to base an accounting principle on what is statistically remote rather than on the normal operational economics of an enterprise. As an analogy, it would be unreasonable to forestall the recognition of

interest income from all loans because a small portion of these loans will ultimately default.

In summary, it strains any reasonable interpretation of Statement 60 to believe that no premium has been earned on a zero-coupon bond until the bond is repaid, just as it would to assert that an automobile premium or mortgage guarantee payment could not be earned until the contract period was complete.

We would also like to comment on the alternative example provided in the Exposure Draft, in which \$100 million of principal and interest payments are insured for a \$5 million single premium, and \$9 million of principal and interest are repaid in the first year. We believe the recognition of premium could only be calculated correctly under Statement 60 if the contractual term and principal amount of the insured bond are known. Let us assume the term of the bond is five years and the initial outstanding principal is \$80 million, of which \$5 million is repaid at the end of the first year, with \$75 million repaid at the end of year 5.

In our view, the appropriate revenue recognition at the end of the first year is \$937,500, reflecting one-fifth of the premium associated with the \$75 million principle balance due in 5 years, plus an additional \$312,500, reflecting the premium earned on the \$5 million of repaid principle, which constitutes a scheduled decline in the contract limit. Applying Statement 60, the "amount of insurance provided" has fallen from \$80 million insured over a five year period to \$75 million insured over a four year period. Thus, the presumption that revenue would be earned "evenly over the contract period" is adjusted by the reduction of insurance protection according to a predetermined schedule. In our view, this is the clearest reading of Statement 60. However, allocating a somewhat smaller, time-weighted portion of premium to the \$5 million repayment would also be a sensible approach, which we believe FASB should consider. In either case, we believe FASB's more radical approach undercuts Statement 60.

We appreciate the opportunity to express our views on the Exposure Draft for the Accounting for Financial Guarantee Insurance Contracts. We strongly urge the FASB to reconsider its position and would be pleased to discuss our views in greater detail.

Sincerely,

Colin Glinsman

Chief Investment Officer

C. L.n Elingman