



June 18, 2007

Mr. Lawrence Smith, Director Technical Applications and Implementation Activities Financial Accounting Standards Board Norwalk, CT

File Reference No. 1530-100

Dear Mr. Smith:

This letter is submitted in response to the Financial Accounting Standards Board ("Board") Exposure Draft ("ED") Accounting for Financial Guarantee Insurance Contracts on behalf of RAM Holdings Ltd., parent company of RAM Reinsurance Company Ltd., one of the leading companies engaged in the reinsurance of policies written by primary financial guaranty insurance companies. We welcome the opportunity to comment on the ED and note that we are supportive of and in agreement with the comment letter submitted by the Association of Financial Guaranty Insurers ("AFGI"), the trade association of the insurers and reinsurers of municipal bonds and asset-back securities.

We believe that certain elements of the guidance in the ED as respects loss recognition are useful and appropriate in addressing diversity of practice. However, in our judgment several elements of the proposed guidance introduce significant modifications in accounting where current practices are reasonable, widely understood by interested users of financial statements and consistently applied by members of the industry and thus such modifications do not serve to advance transparency or representational faithfulness. We will provide our comments according to the numbered issues with emphasis on those that we believe are significant. After addressing numbered issues, we will also offer general comments that we believe to be relevant.

Scope – Issues 1-3

We agree with the definition of financial guarantee insurance and with the application of the proposed Statement. Further, we strongly encourage incorporation of the application of other accounting standards, in particular Statements 155 and 133, to financial guarantee contracts as that would be both beneficial to transparency and consistency because current application of these standards result in different accounting treatment (i.e., mark-to-market or insurance) for contracts that involve the same economic substance. Many users of financial statements issued by financial guarantee insurers under current guidance recognize this inconsistency and, for example, their analysis



typically eliminates the mark to market for credit default swaps (CDS) required by FAS 133 as this does not reflect the economics of insured CDS but rather elevates a technicality of form over substance.

Unearned Premium Revenue and Premium Revenue Recognition - Issues 4-12

First, we note the revenue recognition and associated balance sheet reporting is an area where there is no material diversity of practice and our experience with investors and analysts supports our belief that current accounting practices are well-understood.

We believe that the ED proposal to recognize premium revenue in proportion to insured contractual payments (Issue 8) is not consistent with the expiration of risk. It is axiomatic that the cumulative risk of default is greatest at the inception of an obligation and reduces with time. This concept is evidenced in virtually all default studies and in the premiums charged by financial guarantee companies in that policies covering long term risks require more premium than those covering short term risk. While we favor the current revenue recognition accounting, we agree with AFGI that if a new revenue recognition standard is determined to be necessary then a level yield approach would be a better one than that contained in the ED.

We do not believe that installment premium is appropriately considered as merely a form of financing (Issue 4) because this market standard premium basis exists primarily because of uncertainties regarding the existence and amount of a future obligation and thus negate the need to negotiate expected prepayment rates that determine insured exposure. However, if the Board retains the view that an asset and liability are created when a financial guaranty policy is issued with an installment premium then we strongly suggest that the initial amount of such an asset and liability should be based on the expected lives of the insured obligation and not on the contractual amounts as set forth in the ED ((Issue 5, Issue 9 and Issue 11). Because most installment premium contracts cover exposures which are subject to estimable prepayments, using contractual premium amounts (effectively assuming no prepayments) would significantly overstate premiums receivable and unearned premiums and result in related reporting distortions in ultimately accounting for the known overstatement. We believe this would result in confusion and a lack of clarity in financial reporting.

The ED requires that the present value of the premium receivable be determined using a discount rate reflecting the policyholder's credit and that this discount rate be accreted on the receivable through investment income (Issue 6). This proposed treatment seems to introduce complexity that is not warranted, is not faithful to the insured transaction and is anticipated to result in confusion for readers and analysts in interpreting, for example, investment income results. We believe the proposed bifurcation is inappropriate and suggest the installment premium received be accrued as premium revenue. Finally, we note that without further implementation guidance the proposed treatment of installment premiums could result in accounting values that reflect a very large number of discount rates and the impact of these rates flowing through the statement of operations, including circumstances where the present value of premiums receivable from the same



policyholder or issuer would be determined using different discount rates due to the timing of policy issuance (for example, in the case of multiple policies that are issued at different times).

Claim Liability - Issues 13-15

Although we generally feel that the proposed guidance within the ED is appropriate, we share two concerns that are also included within the AFGI comment letter.

First, we believe that recognition of claim liabilities should be independent of revenue recognition and, therefore, claim recognition should begin as a deteriorating credit condition is identified and without regard to the unearned premium revenue. Consistent with this, we believe that the requirement in the ED that a claim loss must exceed the unearned premium revenue should be reconsidered. The linkage between loss accounting and unearned premiums as contained in the ED would defer claim recognition and is generally inconsistent with standard insurance accounting.

Second, we are concerned that without further clarification the proposed requirement of measuring expected cash flows using assumptions about the probability weighted expected net cash flows that reflect the likelihood of all possible outcomes could result in a needlessly unproductive and costly effort that does not yield improved loss estimation. We therefore encourage the Board to provide such clarification, recognizing that the estimation of claim liabilities is necessarily imprecise and involves considerable judgment and uncertainty.

Disclosures - Issue 16

The disclosures required by the ED are generally provided voluntarily by all financial guarantee insurers and reinsurers and, therefore, are not problematic. However, the future contractual runoff of unearned premiums would be a modification to current disclosures that would be a step backward in that such a schedule would introduce gross distortion in that contractual unearned premiums, as noted above, will not be a good or reasonable estimation of actual or expected earned premiums.

Effective Date and Transition - Issues 17-18

If all of the premium and revenue recognition accounting guidance as proposed in the ED is adopted, then the effective date is not a reasonable one due to the substantial amount of systems work and testing that would be required to implement the guidance. In addition to data systems and programming, an assessment of the implications of adoption of these very substantial changes to the accounting model and communicating with constituencies including shareholders, holders of debt instruments, credit facility providers and even outside accountants will also require time and resources.

Other Comment



We encourage additional guidance around accounting for reinsurance from the perspective of both the ceding company and the reinsurer. For example, guidance regarding DAC and ceding commissions would be useful and we believe that for purposes of accounting symmetry a reinsurer would record ceded premiums and claim liabilities on the same basis as reported to it by primaries as opposed to re-estimating or using different discount rates.

Once again, we appreciate the opportunity to submit our comments and respectfully request that these be considered in the course of developing accounting guidance.

Sincerely,

Richard Lutenski

Chief Financial Officer