



June 19, 2009

Mr. Russell G. Golden
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

File Reference No. 1660-100
Preliminary Views on Revenue Recognition in Contracts with Customers

Dear Mr. Golden:

MBIA Inc. appreciates the opportunity to comment on the Preliminary Views on Revenue Recognition in Contracts with Customers (“Revenue Recognition” or “Discussion Paper”). MBIA provides financial guarantee insurance and other forms of credit protection, as well as investment management services to public finance and structured finance issuers, investors and capital markets participants on a global basis.

MBIA supports the joint FASB and IASB project to develop a single, contract-based revenue recognition model. MBIA encourages the FASB to consider the impact of the joint FASB and IASB project on Insurance Contracts in deliberations and decisions leading to Exposure Drafts of standards for U.S. GAAP and IFRSs on Insurance Contracts and Revenue Recognition.

In our insurance business, MBIA enters into explicit insurance contracts with customers that create performance obligations to provide an unconditional and irrevocable guarantee of the payment of principal and interest, when due, ultimately to the holders of insured obligations. This performance obligation to make insured payments under financial guarantee insurance contracts generally cannot be accelerated against MBIA. The majority of our financial guarantee insurance contracts are accounted for in accordance with FASB Statement No. 163, *Accounting for Financial Guarantee Insurance Contracts*. Other contracts with customers are accounted for as derivative instruments within the scope of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. In substance, the performance obligation is the same for contracts accounted for as SFAS 163 financial guarantee insurance contracts or contracts accounted for as derivative instruments. Accounting principles of the Exposure Drafts for Insurance Contracts and Revenue Recognition should include a consistent recognition and measurement model for financial guarantee insurance contracts that provides decision-useful information.

For financial guarantee insurance contracts, the performance obligation is to stand-ready to make insured payments of principal and interest when due. MBIA supports the Boards preliminary view to reject current exit price approach. Our financial guarantee insurance contracts are not transferrable and no market participants or exit price exists to provide a measurement of performance obligation that is decision-useful.

In addition to our comments above, our responses to the discussion questions in the Discussion Paper are presented below.

Thank you for the opportunity to contribute to the standard-setting process. Should you have any questions about our letter, please do not hesitate to contact Greg Wilson, Director of Accounting Policy Group at (914) 765-3381 or me at (914) 765-3557.

Sincerely,

A handwritten signature in black ink, appearing to read 'Huy Tran', with a long horizontal flourish extending to the right.

Huy Tran
Managing Director
Deputy Controller and Head of Accounting Policy Group
MBIA Inc.

Question 1

Do you agree with the Boards' proposal to base a single revenue recognition principle on changes in an entity's contract asset or contract liability? Why or why not? If not, how would you address the inconsistency in existing standards that arises from having different revenue recognition principles?

A single revenue recognition principle based on changes in performance obligation in MBIA contracts used to provide insurance, including financial guarantee insurance contracts and insured credit default swap contracts, is an accounting principle we can support provided the measurement approach allows revenue recognition consistent with the amount of insurance protection provided that is matched to the period provided. The revenue recognition principle would need to capture the unique attributes of our insurance contracts.

MBIA provides its guarantees in two legal forms: financial guarantee insurance contracts and insured CDS contracts. The two forms of guarantees are functionally and economically identical. In exchange for an insurance premium, collected at inception of the contract or in installments, MBIA is unconditionally and irrevocably obligated to make insured payments, when due, in the event of nonpayment of an insured obligation. The performance obligation is the obligation to "stand-ready" over the term of the insured obligation, and the change in the performance obligation should measure the amount of the premium attributable for providing the "stand-ready" obligation. A single revenue recognition principle based on changes in the performance obligation should be consistently applied to financial guarantee insurance contracts and insured CDS contracts.

The contract attributes of financial guarantee insurance contracts and insured CDS contracts include the following:

- Premiums are received in cash, collected at inception of the contract or in installments over the term of the insured obligation.
- No collateral posting is required.
- Obligation is unconditional and irrevocable and can not be settled at market value in the ordinary course of business.
- Obligation can not be accelerated upon a default in the insured obligation, except at the option of MBIA.
- No "exit market" or exchange market exists.
- No delivery of goods or other services.

A single revenue recognition principle that provides a consistent recognition and measurement model for both insured CDS contracts and financial guarantee insurance contracts provides more decision-useful information because the contracts have the same attributes. For insured CDS contracts, a revenue recognition principle based on a performance obligation to guarantee payment of principle and interest, when due, in the event of nonpayment by the insured obligation provides more decision-useful information than fair value accounting of a derivative instrument with changes to fair value recognized to earnings under SFAS 133.

Question 2

Are there types of contracts for which the Boards' proposed principle would not provide decision-useful information? Please provide examples and explain why. What alternative principle do you think is more useful in those examples?

The Discussion Paper does not exclude any contracts from the proposed model. Certain financial instruments, including hybrid instruments and other securities, are in contract form where the holder has rights, however may or may not have a performance obligation (i.e. post collateral, deliver on an option). The Board should consider how a recognition principle based on changes in assets and liabilities applies to financial instruments, if at all.

Question 3

Do you agree with the Boards' definition of a contract? Why or why not? Please provide examples of jurisdictions or circumstances in which it would be difficult to apply that definition.

In the definition of a contract in the Discussion Paper, a contract creates an enforceable obligation. A contract does not need to be in writing to create an enforceable obligation. The Discussion Paper states the definition of a contract is consistent with the definition from Black's Law Dictionary, which includes the condition "otherwise recognizable at law."

An alternative definition may consider a contract results from an agreement between parties that creates a performance obligation. Diversity in practice to establish the conditions or attributes that results in an agreement being enforceable or legal may result. For example, are legal opinions necessary to interpret "otherwise recognizable at law?"

Another circumstance that may result in difficulty in applying the definition is implicit variable interests and whether an enforceable obligation is created.

Question 4

Do you think the Boards' proposed definition of a performance obligation would help entities to identify consistently the deliverables in (or components of) a contract? Why or why not? If not, please provide examples of circumstances in which applying the proposed definition would inappropriately identify or omit deliverables in (or components of) the contract.

A performance obligation under financial guarantee insurance contracts is to guarantee payment of principle and interest, when due, in the event of nonpayment by the insured obligation. A performance obligation is satisfied when the insurance protection is provided and in the period it is provided as well as when an insured

payment is paid in cash to the holder of the insurance protection (or paid in cash to a trustee acting as agent for the insured party). No other elements or components are deliverable.

Question 5

Do you agree that an entity should separate the performance obligations in a contract on the basis of when the entity transfers the promised assets to the customer? Why or why not? If not, what principle would you specify for separating performance obligations?

A performance obligation may be separated based on the “stand-ready” performance obligation to provide insurance protection by the insurance enterprise under a financial guarantee insurance contract. In this insurance contract, the insurance enterprise promises to guarantee the payment of principal and interest, when due, in the event of nonpayment by the insured obligation. If an insured event does not occur, an insured payment is not transferred to the customer. The principle is to separate the insurance protection service as a performance obligation, and to recognize the change in the performance obligation to revenue over the term of the promised insurance protection.

Question 6

Do you think that an entity’s obligation to accept a returned good and refund the customer’s consideration is a performance obligation? Why or why not?

Financial guarantee insurance contracts do not involve the transfer of goods and refunds of cash premiums are not allowed because the contracts are unconditional and irrevocable. Returned goods or refunds of cash are not relevant to financial guarantee insurance contracts. No further comment at this time.

Question 7

Do you think that sales incentives (for example, discounts on future sales, customer loyalty points, and “free” goods and services) give rise to performance obligations if they are provided in a contract with a customer? Why or why not?

Financial guarantee insurance contracts do not involve sale incentives and the performance obligation is not affected, therefore the question is not relevant to financial guarantee insurance contracts. No further comment at this time.

Question 8

Do you agree that an entity transfers an asset to a customer (and satisfies a performance obligation) when the customer controls the promised good or when the customer receives the promised service? Why or why not? If not, please suggest an alternative for determining when a promised good or service is transferred.

A performance obligation under financial guarantee insurance contracts is to guarantee payment of principle and interest, when due, in the event of nonpayment by the insured obligation. A performance obligation is satisfied when the insurance protection is provided and in the period it is provided as well as when an insured payment is paid in cash to the holder of the insurance protection (or paid in cash to a trustee acting as agent for the insured party).

A service is provided by the insurance enterprise providing a “stand-ready” performance obligation. The customer receives the service each reporting period, and recognition and measurement of revenue should be allocated for this service to the reporting period.

Question 9

The Boards propose that an entity should recognize revenue only when a performance obligation is satisfied. Are there contracts for which that proposal would not provide decision-useful information? If so, please provide examples.

A performance obligation is satisfied when the insurance enterprise provides a “stand-ready” performance obligation to provide insurance protection under a financial guarantee insurance contract. In this insurance contract, no insured payments may be transferred by the insurance enterprise to the customer during the term of the contract.

However, the insurance protection is provided to the customer each reporting period, and recognition and measurement of revenue resulting from the change in the performance obligation for the service provided to the customer should be allocated to each reporting period.

Financial guarantee insurance contracts include the contract attributes of other insurance contracts to provide insurance protection, where the insurance enterprise may not transfer assets to the customer if an insured event does not occur during the term of the insurance contract. To provide decision-useful information, revenue should be recognized and measured in the period the insurance protection is provided.

Question 10

In the Boards' proposed model, performance obligations are measured initially at the original transaction price. Subsequently, the measurement of a performance obligation is updated only if it is deemed onerous.

(a) Do you agree that performance obligations should be measured initially at the transaction price? Why or why not?

For financial guarantee insurance contracts where the entire insurance premium is collected at the initial inception of the contract, the upfront insurance premium provides the best estimate of the performance obligation.

Financial guarantee insurance contracts are also written where insurance premiums are collected in installments over the term of the insured obligation. SFAS 163 provides a proscriptive approach to the recognition and measurement of the performance obligation defined as unearned premium revenue. Generally, the initial unearned revenue provides an estimate of a performance obligation. In subsequent measurement, unearned premium revenue may be adjusted under certain facts and circumstances.

(b) Do you agree that a performance obligation should be deemed onerous and remeasured to the entity's expected cost of satisfying the performance obligation if that cost exceeds the carrying amount of the performance obligation? Why or why not?

No comment at this time.

(c) Do you think that there are some performance obligations for which the proposed measurement approach would not provide decision-useful information at each financial statement date? Why or why not? If so, what characteristic of the obligations makes that approach unsuitable? Please provide examples.

No comment at this time.

(d) Do you think that some performance obligations in a revenue recognition standard should be subject to another measurement approach? Why or why not? If so, please provide examples and describe the measurement approach you would use.

In the joint FASB and IASB project on Insurance Contracts, the Boards may decide to include financial guarantee insurance contracts within the scope in the Exposure Drafts of standards for U.S. GAAP and IFRSs.

We encourage the Boards to consider the interaction between the joint project on Insurance Contracts and Revenue Recognition with respect to financial guarantee insurance contracts and insured CDS contracts accounted for as derivatives under

SFAS 133 in deliberations and decisions leading to Exposure Drafts of standards for U.S. GAAP and IFRSs.

Question 11

The Boards propose that an entity should allocate the transaction price at contract inception to the performance obligations. Therefore, any amounts that an entity charges customers to recover any costs of obtaining the contract (for example, selling costs) are included in the initial measurement of the performance obligations. The Boards propose that an entity should recognize those costs as expenses unless they qualify for recognition as an asset in accordance with other standards.

(a) Do you agree that any amounts an entity charges a customer to recover the costs of obtaining the contract should be included in the initial measurement of an entity's performance obligations? Why or why not?

FASB Statement No. 60, *Accounting and Reporting by Insurance Enterprises* requires acquisition costs to be capitalized and charged to expense in proportion to premium revenue recognized. Financial guarantee insurance contracts are accounted for accordance with SFAS 60, as amended by SFAS 163. Any costs associated with the origination of an insured CDS contract is expensed as incurred.

MBIA supports capitalizing acquisition costs and recognizing the insurance premiums collected in the performance obligation.

(b) In what cases would recognizing contract origination costs as expenses as they are incurred not provide decision-useful information about an entity's financial position and financial performance? Please provide examples and explain why.

No further comment at this time.

Question 12

Do you agree that the transaction price should be allocated to the performance obligations on the basis of the entity's stand-alone selling prices of the goods or services underlying those performance obligations? Why or why not? If not, on what basis would you allocate the transaction price?

A performance obligation under financial guarantee insurance contracts is to guarantee payment of principle and interest, when due, in the event of nonpayment by the insured obligation. In exchange for this performance obligation, an insurance premium is collected. A financial guarantee insurance contract does not require the performance of any other services or the transfer of goods on the part of the insurance enterprise. The insurance premium collected should be allocated to the performance obligation.

Question 13

Do you agree that if an entity does not sell a good or service separately, it should estimate the stand-alone selling price of that good or service for purposes of allocating the transaction price? Why or why not? When, if ever, should the use of estimates be constrained?

In a financial guarantee insurance contract, an insurance premium is collected and insurance protection is provided. No other services or the transfer of goods result from the contract, therefore the question is not relevant to financial guarantee insurance contracts. No further comment at this time.