



June 30, 2008

Mr. Russell Golden
Director of Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

File Reference: Proposed FSP FAS 133-b and FIN 45-c

Re: Disclosures about Credit Derivatives and Certain Guarantees; An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45

## Dear Mr. Golden:

MBIA Inc. appreciates the opportunity to provide input on the credit derivative disclosures proposed by the FASB. 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.

We support the FASB in undertaking this project and generally believe that our interests in providing more useful information to readers of financial statements are aligned with the objective of the proposed disclosures. We already disclose some of the information that is being requested (for example, we report the nature of our credit derivatives, aggregate maximum amount of future payments, term, general recovery and recourse provisions, etc) and feel that our disclosures exceed those required under current accounting guidance. However, given the recent credit turmoil in the market, we feel that investors, analysts, policyholders, and issuers require more information than what other financial institutions have traditionally disclosed under FAS 133, Accounting for Derivatives and Hedging Activities. Therefore, we agree that additional disclosures, such as those being proposed, be required to allow readers access to consistent and comparable information across filers. Additionally, we feel that providing these disclosures will give us an opportunity to provide readers with insight on the fair value of our insured credit default swaps, which we believe is not the best metric of our exposure to credit risk.

We would like to note that MBIA Insurance Corp. has ceased insuring new credit default swaps (our most prevalent credit derivative) as the volatility they can produce in financial statements in times of credit stress are not consistent with our business model. For example, counterparties to our insured credit default swaps use these instruments to hedge and/or take advantage of credit spreads. Since these insured credit default swaps are subject to fair value, or "mark-to-market" accounting, these counterparties, usually investment banks or similar financial institutions, benefit from our insured credit default swaps when underlying assets deteriorate in credit quality. This allows the financial

institutions to recognize gains, alleviating their regulatory capital requirements. This does not fit with our business model of providing bond insurance to provide the benefit of lowering debt issuance costs for issuers.

We note that our insured credit default swaps are derivatives in form but insurance policies in substance; they have relatively little in common with the instruments commonly held and traded by investment banks and broker/dealers. Our insured credit default swaps have most of the terms and conditions, and liquidity provisions of financial guarantee insurance policies: we take credit risk until the maturity of the instruments we guarantee, we are not required to post collateral, acceleration is not permitted, and the instruments are not traded (i.e. no observable market prices). Furthermore, from an underwriting and risk management perspective, MBIA's Insurance segment generally does not distinguish between credit protection provided in the form of financial guarantee insurance contracts from protection executed as credit default swaps. The notion of trading marks is therefore irrelevant to us, and likewise, mark-to-market accounting does not accurately reflect the economics of our insurance business. Therefore, we agree with and applaud the FASB for expanding disclosure requirements to include items such as descriptions of current credit status, and recovery/recourse provisions that will allow readers to better interpret our mark-to-market results, which in itself, would not be the best measure of our exposure, but nonetheless has become a substantial and highly visible figure.

Below are our comments on the proposed FSP FAS 133-b:

## Amendment to Disclosure Requirements of Statement 133

## Paragraph 10a: Current Status of Payment/Performance Risk

MBIA agrees with the FASB's requirement to provide information on the current status of credit derivatives and believes that such disclosures can generally be implemented. We note that it would be impossible to obtain ratings information for certain instruments, such as those linked to pooled reference entities. Since the FASB prescribes disclosures on current external credit ratings or other "internal categories/groupings based on the manner in which the seller manages risk," we are looking into how to best categorize and disclose these credit default swaps.

One thing we would like to note is that we believe that information on credit ratings alone is not useful in portraying credit exposure. We, as well as many market participants, feel that external credit ratings are laggard and not always consistent over time. This belief is reinforced by the SEC's current reform efforts aimed at promoting ratings with integrity. Therefore, we feel that additional disclosures including levels of subordination or attachment points are integral in providing a more accurate picture of our credit exposure.

## **Effective Date and Transition**

As indicated above, MBIA already reports some of the items required in the proposed disclosures. We believe that MBIA will be able to comply with the requirements of the FSP by the proposed effective date, which for us would be December 31, 2008.

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 me at 914-765-3557.

Sincerely,

Huy Tran Managing Director of Accounting Policy MBIA Inc.