XL CAPITAL ASSURANCE

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Mr. Lawrence Smith, Director
Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
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1530-100

LETTER OF COMMENT NO. 36

File Reference No. 1530-100

Dear Mr. Smith,

XL Capital Assurance Inc. ("XLCA") is submitting this letter to reaffirm our strong support of the views expressed in the comment letter submitted on behalf of the Association of Financial Guaranty Insurers ("AFGI"), of which we are a member, in response to the Financial Accounting Standards Board's ("FASB" or "the Board") Exposure Draft *Accounting for Financial Guarantee Insurance Contracts* ("the ED"), particularly with respect to the FASB's proposed guidance in regard to revenue recognition and installment premium paying contracts. In addition, we would like to express certain views in regard to revenue recognition to supplement that articulated in the AFGI letter, as well as certain other matters. Security Capital Assurance Ltd ("SCA") is our parent and a holding company domiciled in Bermuda whose common shares are listed on the New York Stock Exchange (NYSE: SCA), and whose operating subsidiaries provide triple-A rated credit enhancement for financial obligations in the domestic and international capital markets. SCA operates through two principal subsidiaries - XLCA, which provides financial guarantees to debt issues, and XL Financial Assurance Ltd., which provides reinsurance to financial guarantee insurers.

In regard to revenue recognition, we believe that the proposed guidance may have unwarranted adverse implications to capital formation and deployment in the financial guarantee business as resultant rates of return from such business, calculated based on such proposed GAAP, diverge significantly from the economics of how the business is priced in the marketplace and how capital is allocated to support such business. We believe that because the guidance, as proposed, fundamentally fails to reasonably measure the economics of the business on a periodic basis (as further discussed in the AFGI comment letter) that it will lead to confusion in the marketplace, a lack of comparability to other financial institutions that take credit risk, and may force companies to consider publication of additional non-GAAP measures as they struggle to articulate the true economics of the business to analysts and investors.

In regard to AFGI's suggestion that the Board consider expanding the scope of the proposed standard to incorporate the application of other accounting standards (i.e., FAS 155 and 133 and Interpretation 46R), we would like to comment as follows:

> Currently under FASB 133 these instruments are reported at fair value with changes in fair value reported in earnings. However, because industry participants generally hold these instruments to maturity and never realize the periodic changes in market value that they are forced to report in their earnings statements under current standards, most have adopted a

multi-line presentation whereby they report the insurance-like components of the mark-to-market (e.g. premiums and losses) in the technical insurance line items in their earnings statements and the remaining components of the mark-to-market, driven by changes in credit spreads and interest rates, in a separate line item used exclusively for such purpose. The genesis of the adoption of such multi-line presentation was to more accurately convey to readers of financial statements the true economics of the underlying business, as compared to simply reporting the entire mark-to-market in one line item on the earnings statement. This presentation also facilitated analysis of a company's economic earnings. In this regard it is noteworthy that analysts and investors routinely exclude the mark-to-market changes on credit default swaps attributable to changing credit spreads and interest rates from their analysis of the companies earnings. We believe that a more appropriate accounting treatment for credit default swaps issued by financial guarantors that are intended to be held to maturity would be to account for such instruments in a manner similar to the accounting for financial guaranty insurance contracts, as such contracts in substance are substantially the same as such insurance contracts. However, we would like to emphasize that we would not support the application of the revenue recognition model proposed in the FASB's ED to credit default swaps. We believe the current model for recognition of premium revenue embedded in the mark-to-market of credit default swaps is appropriate. It should also be pointed out that the credit default swaps issued by financial guarantors are largely customized transactions with no readily observable market and the mark-to market is generally modeled using level 2 and level 3 inputs, as defined in FASB 157.

Sincerely,

Arnold Brousell
Chief Accounting Officer and Controller