December 8, 2010

Technical Director
File Reference No. 1870-100
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Preliminary Views on Insurance Contracts – Discussion Paper

Assured Guaranty Ltd. ("Assured" or the "Company") appreciates the opportunity to comment on Preliminary Views on Insurance Contracts – Discussion Paper ("Discussion Paper") issued by the Financial Accounting Standards Board ("FASB").

Assured, is a public company traded on the NYSE that provides, through its operating subsidiaries, credit protection products to the United States ("US") and international public finance, infrastructure and structured finance markets. The Company applies its credit underwriting expertise, risk management skills and capital markets experience to develop insurance, reinsurance and financial guarantees written in credit derivative form. The Company’s primary product is a guaranty of principal and interest payment on debt securities. These securities include municipal finance obligations issued by US state or municipal governmental authorities, utility districts or facilities; notes or bonds issued for international infrastructure projects; and asset-backed securities ("ABS"). The Company markets its credit protection products directly to issuers and underwriters of public finance, infrastructure and structured finance securities as well as to investors in such debt obligations. The Company guarantees debt obligations issued in many countries, although its principal focus is on the US and European markets.

The Company receives premiums for providing its credit protection either upfront at date of contract inception or in installments over the life of the insurance contract or credit derivative contract. The average life of a contract ranges from approximately 7 to 10 years for structured finance deals to up to 50 years for infrastructure deals.

Financial guaranty insurance contains aspects of both the short-duration and long-duration insurance models. Historically, this led the industry to develop its own accounting practices to fit its business model. Prior to 2009, the financial guaranty industry utilized an accounting model based upon Financial Accounting Standard ("FAS") No. 60 for recognition of premium revenue and FAS No. 5 for loss reserving. This resulted in divergence in practice, especially in terms of loss reserving, and led the FASB to create an accounting standard specifically for financial guaranty insurance, FAS No. 163. FAS No. 163, which clarified the methodology to be used for financial guaranty insurance premium revenue recognition and claim liability measurement, became effective January 1, 2009. This guidance also expanded the disclosures regarding an insurance enterprise’s risk management activities, loss reserves and premium receivables. Assured and other financial guarantors spent significant time and resources to...
adopt this new accounting guidance, FAS No. 163 entailed a substantial change to the industry's insurance accounting and the Company and other financial guarantors spent significant time and resources to update their systems and accounting and financial reporting processes. In addition, a great deal of time and effort has been expended to educate the Company's investors and analysts on the impact of FAS No. 163.

While FAS No. 163 led to greater comparability among financial guarantors, there is a specific refinement to this standard that we believe would make this industry's financial statements more transparent for its readers. We discuss these refinements later on in the section Targeted Improvement to Current US GAAP for Financial Guarantee Insurance.

An insurance accounting measurement model should reflect the business model for the type of insurance offered. Having one measurement model for all insurance contracts does not reflect the different policy characteristics of short-duration contracts, long-duration contracts, and financial guaranty insurance contracts. We believe that converging all insurance products into one model will result in a final accounting model that is less useful than those existing under current US GAAP standards, resulting in less understandable investor information. Instead, we believe targeted improvements to each of the current US GAAP insurance accounting models would be the appropriate direction for the FASB to pursue.

Ultimately, should the FASB chose to pursue convergence with the IASB toward one single comprehensive insurance accounting standard, we believe that the FASB's and IASB's efforts should result in either a single standard or targeted improvements to current US GAAP by the FASB and the issuance of a separate international accounting standard by the IASB. We do not advocate a significant change to current US GAAP, as contemplated in the FASB's Discussion Paper, without a full convergence with the IASB. We believe that it is imprudent to significantly modify US GAAP as an interim step to full convergence due to the significant costs that such a change would entail for US insurance companies. Additionally, preparers and users of the financial statements would be required to understand this interim standard and then transition to a final, converged standard presumably within a relatively short time frame as the push towards convergence continues. An interim modification to US GAAP that doesn't result in full convergence with the IASB could potentially result in the financial guaranty industry undergoing three significant modifications to its insurance accounting model within a short time span. This would be very onerous from a cost/benefit perspective, make comparability of historical financial results very difficult and, we believe, be an undue burden on our investors and analysts. We understand the IASB's desire to move forward with an insurance accounting standard for IFRS, as one does not currently exist, however, US GAAP currently has comprehensive guidance for insurance accounting that with some targeted improvements adequately fits the industry's needs now and for the foreseeable future.

Specific to financial guaranty insurance, the FASB made targeted improvements to US GAAP in FAS No. 163 to increase transparency and comparability among industry participants. We believe the composite margin and two-step margin approaches outlined in the Discussion Paper could result in less transparency and comparability due to a number of factors that we discuss in our Comments / Issues with FASB's Discussion Paper below.

Along these lines, in the following sections we will provide suggested targeted improvements to current US GAAP for financial guaranty insurance and our comments / issues with the FASB's Discussion Paper in terms of its application to financial guaranty insurance.
Targeted Improvement to Current US GAAP for Financial Guarantee Insurance

As previously mentioned, US GAAP has a comprehensive accounting model for financial guaranty insurance. Some concepts for insurance accounting included in the Discussion Paper are already encompassed in the financial guaranty insurance accounting model, such as using probability-weighted discounted cash flows models for reserving. The following is a brief discussion of a targeted improvement to current US GAAP that we feel would make financial guarantors’ financial statements even more transparent to their users.

We believe that a significant targeted improvement to US GAAP for financial guaranty insurance would be to eliminate the concept of UPR and loss reserves representing the combined stand-ready obligation of the financial guarantor. The combined stand-ready obligation was a controversial concept upon adoption of FAS No. 163. We objected to this concept at the time and we believe it requires revisiting now. The combined stand-ready concept has the effect of delaying the recognition of loss and loss adjustment expenses in the financial statements until the expected loss amount exceeds UPR. We believe that this combined stand-ready obligation significantly reduces the transparency of the financial statements. As a result, we have added significant additional disclosures to our financial statements that were not contemplated by FAS No. 163, such as showing the amount of expected losses that are embedded in UPR and not yet recognized in our financial statements. These additional disclosures are considered critical by management, analysts and investors to gaining a thorough understanding of our financial position and results of operations.

Comments / Issues with FASB’s Discussion Paper

The following are our comments and discussion of issues based upon the proposed guidance outlined by the FASB in its Discussion Paper. Our thoughts are outlined in response to selected questions that were included in the document and are limited to the proposed guidance’s impact on financial guaranty insurance.

<table>
<thead>
<tr>
<th>Definition and Scope</th>
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<tr>
<td>1. Are the proposed definitions of insurance contract and insurance risk (including related guidance) understandable and operational?</td>
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*Company response* – We believe the definitions of insurance contract and insurance risks are understandable and operational.

<table>
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<tr>
<th>Recognition and Measurement</th>
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<tr>
<td>7. Do you agree with the use of the probability-weighted estimate of net cash flows to measure insurance contracts? Does that approach faithfully represent the economics of insurance contracts? Is it an improvement over existing US GAAP?</td>
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*Company response* – We agree with the use of probability-weighted estimate of net cash flows to measure insurance contracts. The Company currently calculates its loss reserves using the probability weighted cash flow methodology mandated for financial guaranty insurance under US GAAP and we have no objection to extending the use of probability-weighted cash flows to premium amounts. The Company believes that this approach correctly reflects the expected
economics and risks of each transaction for financial guaranty insurance. The Company currently discounts its loss reserve cash flow amounts using the risk-free rate. This approach is similar to that outlined in the discussion paper. However, the Company does not incorporate an illiquidity factor as outlined in paragraph 65 of the Discussion Paper. The Company believes an illiquidity factor is not necessary as it cannot by definition unilaterally trade out of its insurance contracts. We also believe that the inclusion of an illiquidity factor would make the comparability of different insurers’ financial statements more difficult as this factor could be subject to broad interpretation, which could lead to companies using materially different rates.

8. Do you think that an entity’s estimate of the net cash flows should include a risk adjustment margin?

Company response — We believe that two of the primary objectives of financial statements are that they are as transparent as possible and comparable amongst industry participants. We believe that the inclusion of a risk adjustment margin runs counter to these goals. A risk adjustment margin would lend itself to tremendous short-term income statement volatility in an industry such as financial guaranty, with long-dated exposure and losses that are low in frequency and high in severity. This would result in reported operating results that are not reflective of the economics of the business or in line with how the business is managed. The volatility of the risk margin would also not be closely correlated to an insurer’s overall view of changes to its ultimate claim liabilities. Additionally, the risk adjustment margin would be subject to arbitrary views that could differ dramatically between industry participants, which would significantly impact the comparability of financial statements.

9. Is the objective of the risk adjustment margin understandable? If so, do you think that the techniques for estimating the risk adjustment margin (see paragraph 52(b)), faithfully represent the maximum amount that the insurer would rationally pay to be relieved of the risk that the ultimate fulfillment cash flows exceed those expected?

Company response — The objective of the risk adjustment margin is understandable. However, the techniques for estimating the risk adjustment margin could result in significantly different results depending on each individual company’s approach. Additionally, we do not believe that Company’s should be restricted to one of the three methods outlined in the Discussion Paper. We believe that industry practice may develop that will result in more refined or appropriate approaches.

As mentioned above, Assured writes business whose losses are low in frequency and high in severity. Much of the business that the Company writes does not have statistically significant default experience. The Company attempts to structure its insurance policies to avoid losses over the life of the contract, as such its underwriting standard is sometimes referred to as “zero loss”. Even when no losses are expected, there is still a cost to the Company for each transaction insured, namely the cost of holding capital associated with that transaction.

The Company holds capital based not only on its internal assessment of economic capital but also based on models used by two external rating agencies, Moody’s and S&P. The Company’s ability to write business is closely tied to its ability to maintain a high rating from these agencies. The Company frequently has a different assessment of the required capital
needed for a transaction or line of business than that required by one or both of the rating agencies. Further, the required capital levels can change due to a reassessment of risk by the rating agencies, even if the Company believes that its risk of loss has not fundamentally changed. As a result the approaches to calculate the risk margin would not always reflect the maximum the Company would be willing to pay to extinguish the risk. In cases where the rating agencies’ mandate a much higher amount of capital be held by the Company to support the risk than that supplied by the Company’s model, the Company may be willing to pay more than its internal model would indicate to be relieved of the risk.

10. Do you think that the risk adjustment margin would be comparable for entities that are exposed to similar risks?

Company response — We do not necessarily think the risk adjustment margin would be comparable for financial guaranty entities that are exposed to similar risk. Financial guaranty insurance does not have statistically significant loss experience for many sectors. As such, each entity needs to apply considerable judgment to arrive at default statistics with which to calculate the risk margin outlined in paragraph 52(b) of the Discussion Paper. The result is that different industry participants will likely have differing assumptions resulting in disparate risk margins. Additionally, since the proposed calculation is based on a portfolio of like risks, it would be particularly sensitive to correlation assumptions built into the portfolio model. Finally, the risk margin is in many cases dependent on the level of capital a Company is holding, which would by its nature create different estimates for the various market participants.

11. Do you agree with the description of cash flows that should be included in the measurement of an insurance contract? Is the proposed guidance operational?

Company response — We agree that the estimates of cash flows should include only those within the boundary of the existing contract but believe the term, “incremental at the level of a portfolio basis” does not provide sufficient guidance as to which costs should or should not be included in such estimates. To ensure consistent application among insurers, we would like to see more specific guidance in this area along the level of detail of what is provided under US GAAP for deferred acquisition costs.

12. Do you agree that the carrying amount of all insurance contracts should be discounted if the effect is material? Do you agree with the proposed guidance on the discount rate that should be used to measure the carrying amount of insurance contracts? If not, which discount rate should be used?

Company response — The Company agrees that all insurance contracts should be discounted if the effect is material; however, it disagrees with the proposed guidance on the discount rate to use. Currently, the Company uses the risk free rate in discounting its claims. This provides transparency and consistency with rates used by other financial guarantors. The proposed guidance requires the risk free rate to be adjusted by a liquidity factor which introduces uncertainty and the potential for significant variability amongst insurers. Since financial guarantee companies do not and cannot trade out of its contract, we do not understand the purpose or benefit of the liquidity factor. The Company believes that another alternative to the risk free rate is the yield on the Company investment portfolio as these assets are used to pay
the Company's claims or a locked-in discount rate based upon this projected yield at policy inception.

15. Do you agree with the use of either the composite margin approach or two-margin approach to measure the net insurance contract? Does either approach faithfully represent the economics of insurance contracts? Is either approach an improvement over the measurement used in current US GAAP?

*Company response*—Our preferred approach would be to follow current US GAAP for financial guaranty insurance with the targeted improvement previously discussed.

As mentioned previously, the Company writes low frequency and high severity business, with claims expected to be a very low percentage of premiums at deal inception. Additionally, a significant amount of financial guaranty premiums, such as those for US public finance business, are paid in a single upfront amount. The Company is then obligated to provide insurance coverage over the life of the policy, which is typically 30 years. The proposed composite margin earnings recognition model, per paragraph 83 of the Discussion Paper, applied to this type of business results in the front-loading of premiums earnings in year 1 and minimal earnings over the remaining 29 years of the coverage period. We do not think that this is the appropriate result. We believe the premiums earnings pattern should be correlated to the expiration of risk. Current US GAAP for financial guaranty insurance accomplishes this.

While the modified approach being considered by the Boards would result in an earnings pattern more in-line with the expiration of risk under a financial guaranty contract, the reasoning outlined in paragraph 95 of the Discussion Paper is not consistent with financial guaranty insurance. For financial guaranty insurance, we do not believe that unearned premium reserve is a reasonable approximation of the claims liability, measured as the present value of the probability-weighted net cash flows, plus profit on those. Rather, we believe that the premium we charge is based upon the cost of capital, which includes the risk of claims, and a return on that capital. As such, the unearned premium, at inception of the contract, exceeds the expected net cash outflow expected to be paid under the contract.

Additionally, financial guaranty insurance would not qualify for the IASB's proposed modified approach, discussed in paragraph 96, as its coverage period exceeds one year.

As a result of the foregoing, we do not believe that the composite margin, the two-margin or the modified approach is an improvement over the measurement used in current US GAAP.

16. Do you think the composite margin should be recognized in earnings in subsequent periods using the rational described in paragraph 83? If not, how would you recognize the composite margin in earnings?

*Company response*—No, as discussed in our response to question #15, we do not think the composite margin should be recognized in earnings using the rational described in paragraph 83. The Company believes that the method described is ambiguous and will result in diversity in practice. The financial guaranty earnings methodology under current US GAAP is very prescriptive, leaving little room for diversity in practiced among industry participants, which enhances the comparability of industry financial statements. The Discussion Paper provides no
clear earnings method to allocate premiums to a period. We believe this will cause significant differences in methods used by insurers to amortize this amount into earnings. In addition we also believe that the inclusion of claim payments could distort the earnings for financial guaranty contracts where there is uncertainty in the amount of ultimate claim payments. It will also cause distortions in instances where claims are paid in one period but expected to be recovered in other periods. Currently, the Company earns the premiums on its contract on the constant yield method as prescribed by US GAAP. We believe this is an effective manner to earn the premiums and provides the most comparability and transparency to the financial statements.

20. Do both the building-block approach and the modified approach (with the latter approach applied only to certain short-duration contracts) produce relevant and decision-useful information? Why or why not?

*Company response* —As mentioned in our response to question #15, we do not believe that the building block approach produces useful information for financial guaranty insurance. It appears that by using the building block method a company is deferring the recognition of losses by netting inherent losses expected at inception with premiums and recognizing it over the life of the contract while recording any adverse development immediately. It does not seem transparent for the adverse development to be recorded when the originally expected loss has yet to be fully recognized. This method could tend to lead companies towards recording a larger expected loss at inception than its best estimate thereby deferring that loss over the life of the contract instead of having increased volatility in its income statement due to adverse development. We believe financial guarantors financial statements would be much more transparent if we continued to follow current US GAAP coupled with the delinking of UPR and losses discussed previously.

21. How should the scope of insurance products for each approach be defined (for example, duration of coverage period, duration of claims payment period, or type of insurance)?

*Company response* —We believe the scope of insurance products for each approach should be defined by type of insurance. The economics can be calculated equivalently regardless of the length of duration, coverage period or length of claims payment. The most understandable approach is to treat each type of insurance product consistently.

24. What other changes should be considered to both improve and simplify US GAAP for short-duration and long-duration insurance contracts?

*Company response* —See our suggested improvements under *Targeted Improvement to Current US GAAP for Financial Guarantee Insurance*.

25. What are the incremental costs of adopting the alternatives described in this Discussion Paper? Please separately describe one-time costs and ongoing costs

*Company response* —Based on our adoption of FAS 163, the implementation costs of adopting the alternatives described in the Discussion Paper would be significant in terms of both internal and external resources. It is difficult to capture all of the direct and indirect costs of implementing such an overhaul of a company’s accounting model but there would need to be a
significant reallocation of internal resources from accounting, systems and actuarial to redesign systems and processes. These changes would also need to be tested by management for certification under Sarbanes-Oxley and then by both internal and external auditors. Lastly, significant time would have to be spent by internal resources to educate investors and analysts on the impact of this accounting change. We believe the cost to smaller insurers would be proportionally greater than for larger insurers. This is a major factor in our position that only targeted improvements to US GAAP are warranted at this time.

**Reinsurance**

27. Should there be symmetry between the recognition and measurement of reinsurance contracts and the underlying contract ceded?

*Company response*—There is ambiguity in the document regarding the accounting for reinsurance contracts. As currently worded, the Discussion Paper could be interpreted to read that when a reinsurer writes an annual quota share contract on January 1st, it needs to estimate the amount of cash flows on contracts that the ceding company will write over the year. This would require the reinsurer to estimate what and when the insurer is going to write and include its share in its financial statements in advance of the writing of the policies by the ceding company. This would result in the reinsurer recording cash flows on contracts in its financial statement that the insurer has not yet written. We believe a reinsurer should only recognize insurance contracts that have actually been underwritten. We believe that the description of the FASB’s intentions in this area of the Discussion Paper need to be amplified and clarified and that each insurance company should determine its own recognition and measurement of its insured contracts.

**Presentation and Disclosure**

28. The margin presentation approach highlights the changes in the insurance liability, rather than the current approach in US GAAP, which presents, among other items, premium revenues, benefits paid, operating costs, and changes in loss reserves. Would this change improve your understanding of the performance of an entity that provides insurance (for some types of insurance or for all)? Please explain.

*Company response*—We do not believe that the margin presentation approach would improve the understanding of the performance for financial guarantors. The current financial guaranty accounting model under US GAAP was developed partially in response to differences among industry participants in how portfolio level loss reserves were established. Going to a margin approach would undo some of the specific objectives the FASB hoped to accomplish with its current financial guaranty accounting guidance. As previously stated, we believe that current US GAAP coupled with the delinking of UPR and losses, as the combined stand-ready obligation, is preferable in terms of transparency and comparability.

**Additional Questions for Respondents**

32. After considering your views on the specific issues contained in the Discussion Paper and the IASB’s Exposure Draft, what do you think would represent the most appropriate improvement to US GAAP?
   a. Pursue an approach based on the IASB’s Exposure Draft?
   b. Pursue an approach based on the IASB’s Exposure Draft with some changes? Please
explain those changes.

c. Pursue an approach based on the Board's preliminary view in this Discussion Paper?

d. Pursue an approach based on the Board's preliminary view in this Discussion Paper with some changes? Please explain those changes.

e. Make targeted changes to address specific concerns about current US GAAP (for example, items included in paragraph 7)? Please describe those changes.

Company response – We strongly believe that the right short term approach is to make targeted changes to address specific concerns with current US GAAP, as we have outlined previously in our comment letter.

Transition Adjustment

In addition to the questions we have addressed above, we would like to mention that we do not agree with the current proposals for the transition adjustment. It appears that the current transition proposals do not permit any residual margin for in-force contracts. We believe that the residual margins on in-force financial guaranty contracts would be material. Our existing book of business, which has a remaining weighted average life of approximately 18 years, exceeds $600 billion of par outstanding. Our new business production is expected to be in the range of $35-45 billion of par per year. While we recognize there may be challenges and significant cost to retrospectively calculating the residual margin for in-force policies, not doing so would result in inconsistent accounting for these policies and new policies underwritten subsequent to the implementation date. This would have the effect of distorting financial guarantors' financial statements for many years.

Summary

The financial guaranty insurance industry, effective January 1, 2009, adopted a new US GAAP accounting standard, FAS No. 163, that sought to eliminate diversity in practice in accounting for financial guaranty insurance contracts, specifically due to inconsistencies in the recognition and measurement of claim liabilities. We feel that FAS No. 163 by and large accomplished its goals and would suggest only targeted improvements to it with the objective of making financial guarantors financial statements more transparent. We feel that a move by financial guarantors to either the FASB’s or IASB’s proposed model would lead to increased diversity in practice for the financial guaranty industry in terms of estimating the claim liabilities or risk margins as required by the two models. We think that the FASB should carefully consider the impact that any proposed changes to US GAAP for financial guaranty insurance would have on the objectives FAS No. 163 sought to accomplish before modifying its standards in this area.
We appreciate the opportunity to submit our views and would be pleased to discuss our comments with you at your convenience. If you have any questions, please contact Rob Bailenson at (212) 261-5511 or (441) 278-6633 or Bill Findlay at (212) 261-5508.

Sincerely yours,

Robert Bailenson  
Chief Accounting Officer  
Assured Guaranty

William J. Findlay  
Director, Accounting Policy  
Assured Guaranty