October 17, 2013

Technical Director
File Reference No. EITF-12Gr
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Measuring the Financial Liabilities of a Consolidated Collateralized Financing Entity - Exposure Draft

Assured Guaranty Ltd. ("Assured" or the "Company") appreciates the opportunity to comment on the Measuring the Financial Liabilities of a Consolidated Collateralized Financing Entity Exposure Draft ("Exposure Draft" or "Proposed Update") 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 offer insurance that protects holders of debt obligations from defaults in scheduled payments, including scheduled interest and principal payments. The Company provides financial guaranties with respect to debt obligations of special purpose entities, including variable interest entities ("VIEs") defined as consolidated collateralized financing entities in the Exposure Draft.

The Company is not primarily liable for the debt obligations issued by the VIEs that it insures and would only be required to make payments on these debt obligations in the event and only for the amount that the issuer of such debt obligations defaults on any principal and interest due. The Company’s creditors do not have any rights with regard to the assets of the VIEs. Proceeds from sales, maturities, prepayments and interest from VIE assets may only be used to pay debt service on VIE debt obligations. The Company has not sponsored any VIEs when underwriting third party financial guaranty insurance, does not act as the servicer or collateral manager for any transactions that it insures, and does not set the underwriting guidelines or select the assets for these VIEs. The Company also does not have the ability or expertise to service loans itself nor does the Company have the power over the servicer to gain timely access to loan level data to enable historical cost basis accounting.

As part of the terms of its financial guaranty contracts, the Company obtains certain rights with respect to the VIEs that are triggered by the occurrence of certain events, such as failure to be in compliance with a covenant due to poor deal performance or deterioration in a servicer or collateral manager’s financial condition. At deal inception, the Company typically is not deemed to control a VIE; however, once a trigger event occurs, the Company’s control of the VIE typically increases. The Company is deemed to be the primary beneficiary under GAAP.
typically when its triggered rights under its financial guaranty contract give it the power to both terminate and replace the deal servicer. If the Company’s rights have not been triggered, it does not possess the ability to either terminate or replace the deal servicer, and therefore it has determined it is not the control party and it does not consolidate the VIE.

The Company has limited contractual rights to obtain the financial records of VIEs that it consolidates. The VIEs do not prepare separate GAAP financial statements; therefore, the Company compiles GAAP financial information based on trustee reports prepared by and received from third parties. The Company records both the fair value of VIE assets and the fair value of VIE debt obligations based on modeled prices. The Company updates the model assumptions each reporting period for the most recent available information, which incorporates the impact of material events that may have occurred since the quarter lag date. The Company has elected the fair value option for assets and debt obligations classified as VIEs’ assets and liabilities because the carrying amount transition method was not practical.

The Company’s investors, analysts, Board of Directors and management believe that the consolidation of these VIEs makes the Company’s accounting less transparent as well as less reflective of the Company’s underlying economics. The consolidation of these VIEs eliminates the financial guaranty insurance activity preferred by the users of the Company’s financial statements and replaces it with the financial statements of the consolidated VIEs that:

- Are reported using a fair value approach due to the lack of detailed information available to the Company that makes it impractical to account for the VIEs’ assets at the loan level using a historical cost basis;
- Incorporate the Company’s own credit in the calculation of certain VIE debt obligations, whereas loss reserves under ASC 944 do not; and
- Replace the main economic components of the Company’s business under ASC 944, namely our premiums and losses, with movements in the fair value of VIE assets and debt obligations.

Consequently, the Company believes that ASC 944 is a more relevant measure of the Company’s economics for these VIEs than ASC 810 and believes that if the FASB is considering revisiting its consolidation guidance it amend its guidance in to exclude rights under an insurance contract from the scope of ASC 810 altogether.

As currently drafted, the Proposed Update ignores the financial guarantees of VIE debt obligations, which Assured believes should be considered when recording the fair value of these financial liabilities.

The remainder of our comment letter addresses this issue in greater detail and addresses our additional observations on the Exposure Draft.

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 Update. 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 the Company.
Questions for Respondents

**Question 1:** Do you agree with the measurement of the financial liabilities of a consolidated collateralized financing entity as described in paragraph 810-10-30-2A? Do you also agree that a reporting entity that consolidates a collateralized financing entity should no longer be permitted to measure the financial liabilities of the collateralized financing entity using the fair value option of Topic 825 (whether or not the reporting entity elects to apply the measurement guidance under the Proposed Update)?

**Response 1:** Assured does not agree with the proposed measurement of the financial liabilities of a consolidated collateralized financing entity as described in paragraph 810-10-30-A, specifically in relation to debt obligations of consolidated VIEs that are insured by the Company. As previously stated, Assured guarantees the principal and interest payments on debt obligations of collateralized financing entities that it also consolidates. This guarantee (i.e., the financial guaranty insurance contract) insures the debt obligations of the consolidated collateralized financing entities and is distinct from the financial assets that support these obligations. The Company believes that the fair value of the guaranteed debt obligations, therefore, can be greater than the fair value of the related assets due to the value of the financial guaranty insurance contract. The measurement of financial liabilities proposed in the Exposure Draft, which would seem to preclude factoring in this financial guarantee, would result in the understatement of the Company’s liabilities related to the insured debt obligations.

As a result, Assured believes that the FASB should permit insured financial liabilities (i.e., collateralized financing entities’ debt obligations which are guaranteed by financial guaranty insurance contracts) to continue being measured using the fair value option of Topic 825 and, therefore, be exempt from this Proposed Update. In this manner, the value of our financial guaranty insurance contract, which the Company cannot unilaterally exit and is embedded in the value of the consolidated collateralized financing entities’ debt obligations, can be appropriately reflected in the Company’s consolidated financial statements.

**Question 2:** Do you agree that a reporting entity that previously elected or was required to measure all eligible financial assets and financial liabilities of the consolidated collateralized financing entity at fair value should be required to apply the amendments in this Proposed Update to those collateralized financing entities that exist at the date of adoption?

**Response 2:** Assured does not agree that reporting entities which previously elected or were required to measure all eligible financial assets and financial liabilities of collateralized financing entities at fair value should be required to apply the proposed amendments in the Exposure Draft, given the potential understatement of guaranteed debt obligations that results from not including the fair value of the financial guarantees as discussed in Response 1.

**Question 3:** Should the decision to apply the proposed amendments be an accounting policy decision or a decision to be applied to individual collateralized financing entities? Please explain.

**Response 3:** Assured believes that the decision to apply the proposed amendments in the Exposure Draft should not be an accounting policy decision, but a decision that is applied to individual collateralized financing entities. The specific facts and circumstances of consolidated...
collateralized financing entities need to be considered individually in determining whether fair value accounting guidance is appropriate. As previously stated in Response 1, Assured insures the debt obligations of these VIEs and requires the continued use of the fair value option of Topic 825 in order for the Company to accurately report their financial liabilities. Otherwise, financial guarantees of VIE debt obligations are not be taken into account resulting in an unrecorded liability for the Company's consolidated collateralized financing entities equal to the fair value of these insurance contracts.

Assured recommends that the FASB consider allowing entities to record their financial liabilities at fair value given that there is greater transparency into their observable market as compared to the market for the financial assets backing those liabilities.

**Question 4:** The proposed amendments require that a reporting entity allocate the calculated value to the individual financial liabilities on a reasonable and consistent basis using a methodology appropriate in the circumstances. For preparers, is additional allocation guidance necessary? If yes, what methods should be used to allocate the calculated value of the financial liabilities to the individual financial liabilities?

**Response 4:** Assured believes that the proposed amendments provide sufficient guidance for allocating the calculated value of the financial liabilities to the individual financial liabilities of collateralized financing entities; however, as stated above, we disagree with the proposed guidance as it does not consider the impact of our financial guaranty insurance in the valuation.

**Question 7:** Do you agree that early adoption of the proposed amendments should be permitted? If not, please explain why.

**Response 7:** Assured does not agree with the Proposed Update for the reasons stated above, namely that the fair value of financial guarantees is not considered when valuing VIE debt obligations. The Company, therefore, objects to the early adoption of the proposed amendments being permitted.

**Question 9:** For preparers, how much time would be needed to implement the proposed amendments?

**Response 9:** Assured believes that minimal time would be required to implement the proposed amendments but believes that following the guidance in the proposed amendments would result in a misleading accounting for transactions for which we provide a financial guaranty. Consequently, as previously detailed in Response 1, Assured believes that the financial guaranty insurance contract should be valued together with the debt obligations of the consolidated collateralized financing entities and measured using the fair value option of Topic 825.

**Question 10:** For preparers, what costs do you expect to incur as a result of implementing the proposed amendments?

**Response 10:** While the Company disagrees with the Proposed Update due to the fact that it ignores the fair value of financial guarantees on the debt obligations of consolidated collateralized financing entities, it estimates that the costs to implement the proposed amendments would not be significant.
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 Bill Findlay at (212) 261-5508.

Sincerely yours,

William J. Findlay
Managing Director,
Accounting Policy and Controls