October 25, 2013

Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Preliminary Views on Insurance Contracts

Ladies and Gentlemen:

The Mortgage Insurance Companies of America (“MICA”) group has prepared this letter in response to the exposure draft issued by the Financial Accounting Standards Board (the “Board” or “FASB”) titled Insurance Contracts (the “Exposure Draft” or “Proposal”). As the industry association for mortgage guaranty products, we believe the FASB will find our observations and perspectives useful in its deliberations as there are several concepts unique to the mortgage insurance industry.

MICA is the trade association representing the private mortgage insurance industry. Its members help loan originators and investors make funds available to home buyers with as little as 5-to-10 percent down payments – and even less for qualified borrowers – by protecting these institutions from a major portion of the financial risk of default.

Overall, we believe the proposed changes to existing insurance accounting guidance is dramatic, unwarranted, and would fail to meet the FASB’s stated objectives. Given the relatively limited issues with existing insurance accounting guidance, we urge the Board to consider an approach that evaluates the necessary improvements to existing guidance to meet user’s concerns.

We continue to believe, as we did when we responded to the discussion paper issued by the FASB titled Preliminary Views on Insurance Contracts in 2010, that the existing model for accounting for insurance contracts is transparent to investors and grounded in providing the users of the financial statements with detailed information on actual results. We believe that this is especially true for mortgage guaranty insurance due to unique factors as further described...
below. In the event that the FASB proceeds with changes to existing guidance (whether through targeted improvements or by proceeding with the proposed approach), any changes to existing accounting guidance should seek to preserve the accounting practices applied by mortgage insurers today, which provides decision-useful information to investors and allows investors to understand the impacts of our performance on our regulatory (statutory) financial statements and capital positions.

The Building Blocks Approach (BBA) model proposed by the FASB would dramatically change the accounting, measurement, and reporting for our products. Additionally, measurement under the proposed model would fail to provide decision useful information, add significant complexity, increase operational costs, and decrease the comparability and transparency of financial statements across the industry.

Mortgage insurers would face unique challenges in estimating future losses under the BBA model. Forecasting frequency, severity and timing of future losses is predicated on numerous micro and macro economic factors such as unemployment and home price appreciation. In order to accurately estimate a borrower’s future ability to repay a mortgage loan one must have knowledge of how these salient economic factors will perform in the future. Stated differently, in order to determine expected future losses for mortgage insurance contracts, one would need to be able to project, with some level of accuracy, future economic events and conditions.

Unlike widely accepted and predictive actuarial tables, projections of future economic assumptions can vary significantly, and actual conditions may be materially different than those forecasts. Given these challenges, measurement under the BBA may produce grossly inaccurate measurements of future fulfillment cash flows. Additionally, similar companies, insuring similar mortgage default risk, may arrive at acceptable but materially different measurements of future fulfillment cash flows. In order to demonstrate this potential, we constructed a hypothetical portfolio of existing loans and measured the change in fulfillment cash flows as a result of using two credible forecasts for home price appreciation with all other projection assumptions held constant. The results showed a difference in the liability measurement that could be well in excess of 40%.

We also evaluated changes in assumptions over time. Even minor changes in future economic assumptions, which occur continuously in today’s markets, could have substantial impacts on projected cash flows. Specifically, we evaluated forecasts of home
price appreciation and can see significant changes from quarter to quarter in various credible sources that would likely cause variations that are similar to our observations above related to the differences in home price appreciation forecasts. These changes in forecast would plague the industry by introducing substantial and constant volatility in earnings and affect comparability between preparers, all in the name of measuring future events that are not capable of being predicted with accuracy.

In addition to our concerns above with respect to applying the Proposal, we are also concerned with the definition of a portfolio. While the Exposure Draft would require the model to be evaluated on a portfolio basis, the reality is that, to properly perform the required modeling, systems solutions would be required to construct those models from an individual policy basis that will likely result in defining a portfolio based on issue-year or potentially even issue-quarter. The proposed portfolio definition would create significant initial and ongoing costs to preparers without significant improvement in transparency, benefit to investors and policyholders, or comparability in the financial results. We also believe that the portfolio definition would significantly increase the complexity and costs to audit the financial statements. To alleviate some of our concerns related to the proposed portfolio definition, the Board should make changes to the portfolio definition to be similar to the existing guidance in U.S. GAAP for evaluating premium deficiency and focus on how an entity evaluates the performance or manages the business. Mortgage insurance and other insurance products are typically managed in large groups with similar risks where disaggregating the accounting model is not consistent with how an entity manages or prices the risk of the business.

If the Board decides to move forward with the proposed model, we recommend the Board consider changes to the scope of the Premium Allocation Approach (PAA) to enable mortgage insurance to be included.

This letter has been organized to address issues raised in the Exposure Draft in the sequential order they were included in the Exposure Draft. We have only responded to those issues which we feel would have a significant impact on, and are particularly relevant to the
mortgage insurance industry. We are available for further discussion regarding our comments and would welcome the opportunity to expand on our views and present financial modeling results to assist the FASB with incorporating changes to the exposure draft.

Sincerely,

Susan Ironfield
Question 5 – Do you agree that entities should apply different approaches to contracts with different characteristics, described as the building block approach and the premium allocation approach? If not, which model do you think should apply and do you think there should be any changes made to that model?

Insurance contracts cover a multitude of risks, and we do not believe those various risks can be factually and accurately measured each reporting period under a single model. We believe insurance contracts should be measured and reported based upon the characteristics of the contract. Furthermore, it is our belief current U.S. GAAP, which requires preparers to measure and report performance under prescribed models based upon the characteristics of the insurance product, provides a superior foundation for measurement and results in more decision useful information for financial statement users. For mortgage insurers, liability recognition begins when borrower payments on the insured loan become delinquent. Additionally, loss recognition testing is performed to ensure future liabilities are not anticipated to be greater than future cash inflows.

Existing accounting practices for mortgage insurance are well understood by analysts and accurately measure a given period’s economic performance. We are not aware of users or analysts that have been critical of the existing accounting model to warrant the significant changes included in the proposal. Furthermore, we believe targeted changes to existing U.S. GAAP that focus on consistent accounting treatment for similar items that exists in each of the measurement models would greatly improve the current guidance, reduce complexity and drive more understanding of the insurance industry and its accounting practices.

Should the FASB elect to proceed with the proposed guidance, we believe that different approaches should be maintained. Mortgage insurance should be scoped in to the PAA approach, which better aligns with the short-duration liability recognition model that is currently applied under U.S. GAAP. The PAA is more akin to the accounting model currently employed by mortgage insurers today under U.S. GAAP and would eliminate many of the concerns noted above under the BBA model. While the PAA would require mortgage insurers to estimate future premiums in order to apply the model, projected premiums could be explained and understood more transparently than the complications introduced with estimating future claims under the BBA model. We recognize that if the Board decides to include mortgage insurance within the scope of the PAA, further guidance will
be necessary to determine how to account for changes in future premiums. Our initial observations would indicate that such changes would simply be reflected as a corresponding adjustment to the liability for remaining coverage. However, we believe a more thorough review of the implication would be necessary and are happy to share any additional observations with the Board during their re-deliberations.

**Question 6** – Do you agree that entities should be required to apply the premium allocation approach if the coverage period of the insurance contract, considering the contract boundary guidance, is one year or less? If not, what would you recommend and why?

We believe the scope of the PAA should be based on the characteristics of the insurance risks and not on bright line contract durations. Certain contracts, such as mortgage insurance, for reasons outlined in the introduction to this letter and our response to Question 5, are more accurately measured under such an approach despite not having a coverage period of one year or less.

**Question 7** – Do you agree that entities should be required to apply the premium allocation approach if, at contract inception, it is unlikely that during the period before a claim is incurred there will be significant variability in the expected value of the net cash flows required to fulfill the contract? If not, what do you recommend and why?

We believe the existing U.S. GAAP model for liability recognition for mortgage insurance provides timely and comparable information related to the losses that are expected based on the delinquent loans that exist as of each reporting period.

In response to both question 6 and 7, we believe that the definition for determining when to apply the PAA should be broadened to include insurance contracts where there are a significant amount of subjective estimates and assumptions required to measure the insurance contracts liability under the BBA that may not be predictive of future experience. When contracts insure future events that cannot be predicted with a reasonable level of accuracy, such contracts should not be measured under the BBA model. Financial statement users may falsely rely on our estimates of future events yet to occur. Additionally, we do not believe reporting these changes in estimates in the financial statements is relevant or useful information. Comparability of the liability estimates would be compromised and vary significantly between companies as a result of applying different reasonable assumptions.

In the case of mortgage insurance, whose losses are closely aligned with economic conditions, we believe various insurers could have
different reasonable outlooks on future economic conditions and arrive at dramatically different projections of future claims. In order to determine expected losses for a mortgage insurance contract, one would need to project the economic events and conditions that could potentially impact the borrower’s ability to repay the mortgage loan. Such projections of various economic scenarios and expected claims frequency as well as severity would vary significantly from company to company and would not provide comparative, decision useful information to investors. As a result, the condition to apply the PAA approach only to those contracts where it is unlikely to have significant variability prior to a claim being incurred is too narrow and may not permit mortgage insurance contracts to be within the PAA approach, which would be more closely aligned with the short-duration liability recognition and measurement basis that is generally applied by the industry today.

The condition related to significant variability prior to a claim being incurred would allow the application of the PAA approach to many catastrophe type events that are difficult to predict when, or if, such an event will occur. We believe the lack of being able to establish a comparable probability-weighted liability estimate for mortgage insurance is similar to catastrophe-type coverage that would be permitted under the PAA approach. Given the reliance on many economic variables in determining expected losses, the usefulness of measuring the mortgage insurance liability under the BBA would be similar to the lack of usefulness that a liability measurement would be for catastrophe events.

**Question 8** – Do you agree with the definition of a portfolio of insurance contracts as included in this proposed Update? If not, what do you recommend and why?

We do not agree with the portfolio definition. The Board should make the portfolio definition consistent with existing guidance in U.S. GAAP for evaluating premium deficiency and focus on how an entity evaluates the performance or manages the business. Mortgage insurance and other insurance products are typically managed in large groups with similar risks where disaggregating the accounting model is not consistent with how an entity manages or prices the risk of the business. For further discussion see our comments in the introduction to this letter

**Question 11** – Do you agree that the assumptions used in the measurement of the fulfillment cash flows should be updated each reporting period? If not, what do you recommend and why?
See response to Question 13. While we believe updating assumptions each period is appropriate for determining whether a loss recognition event (or onerous contract) exists, we believe annually is sufficient barring substantial material changes in assumptions. The modeling required to produce future fulfillment cash flows will be extremely complex, require substantial resources, and increase operational costs with little, if any, benefit when substantial changes have not occurred during a given period.

Additionally, we do not believe updates in assumptions used in the measurement of fulfillment cash flow should be recognized in net income unless those assumption updates relate to incurred losses occurring in the current measurement period.

**Question 12** – Do you agree that the fulfillment cash flows for contracts measured using the building block approach and the liability for incurred claims for contracts measured using the premium allocation approach should be based on an explicit, unbiased, and probability-weighted estimate (that is, the mean) of the future cash flows, as of the reporting date, expected to arise as the entity fulfills the contract, adjusted to reflect any contractual linkage between the contract and any underlying assets? If not, what do you recommend and why?

For mortgage insurance, the underlying assumptions used to develop the probability-weighted scenarios would be based on current economic conditions and projections of the future economic conditions. A probability-weighted estimate would provide a false sense of accuracy that is not predictive, would lead to incomparable results between various reporting entities in the industry, and would result in users placing significant reliance on reported results and measurements largely based on subjective forecasts of economic conditions. We believe the current guidance based upon “best estimate” is a preferable methodology and can provide relevant information without creating the need for significant system changes and methodologies to conform with a probability weighted scenario requirement.

With respect to incurred claims under the PAA approach, we support the existing accounting guidance that results in utilizing an entity’s best estimate of losses for delinquent loans and would generally approximate an entity’s probability weighted estimate without the added cost/burden of demonstrating multiple scenarios were considered, and for which we do not perceive a valuable benefit for users.

**Question 13** – Do you agree with the approach in this proposed Update to recognize changes in estimates of cash flows (other than the
effect of changes in the liability arising from changes in the discount rates) in net income in the reporting period? If not, what do you recommend and why?

No. We believe that existing U.S. GAAP for mortgage insurance provides a more meaningful depiction of an entity’s current period performance as a result of recognizing losses once incurred, and at the point they can be reasonably estimated and predicted with a level of accuracy. Because many future economic assumptions (interest rates, home price appreciation/depreciation, unemployment rates, etc.) are necessary in determining estimates of future cash flows, the resulting volatility within net income resulting from actual economic conditions being different than projected will be difficult for investors to understand and analyze. Additionally, it would be difficult for users to decipher changes from period to period and whether changes were the result of economic conditions being different than projected or if the expected claims projections were better or worse than actual performance.

While we agree that a reporting entity should update their assumptions about their expected cash flows, we do not believe that such updated assumptions should be reflected in net income each period for those contracts that are within the scope of the BBA. We believe the volatility that would result from updating these assumptions and reflecting the changes within net income would: 1) add unnecessary volatility; 2) result in recognition of income and losses that are not reasonable predictable; 3) exponentially increase accounting complexity; and 4) alter well understood investment decision metrics such as earnings, loss ratios, and other key metrics. We believe the proposed model and related complexity could potentially drive investor interest away from insurers to other companies in the financial services sector (like banks) where the accounting results would not be subject to as much volatility.

We believe that a more appropriate measurement model for mortgage insurance contracts would be to only update those assumptions for purposes of determining whether an onerous contract (or loss recognition event) exists on a portfolio. Such approach is generally applied under the PAA approach and would be preferable compared to the BBA for mortgage insurance contracts. However, we believe existing U.S. GAAP for performing loss recognition testing provides investors with the required decision useful information that would be comparable to other industries. For instance, manufacturing does not base current results on expected future performance for items such as long standing union, supplier or sales contracts. Additionally, current guidance ensures timely recognition of any additional liability
measurement as a result of expected cash outflows exceeding expected cash inflows on a portfolio of contracts. As a result, we recommend retaining existing U.S. GAAP treatment for liability recognition on mortgage insurance contracts.

**Question 18** – Do you agree that the method for calculating the discount rates should not be prescribed? Is the proposed guidance on determining the discount rates understandable and operable? If not, what do you recommend?

Yes. We agree that the method for calculating the discount rate should not be prescribed and should permit the use of practical expedients to further simplify the application of determining the discount rate to reduce the potential costs/complexity for companies where discounting has a less significant impact. While the top-down and bottoms-up approach described in the proposal provide flexibility, the requirement to determine subjective adjustments to the discount rate may result in added costs/complexity for companies where discounting is less significant or relevant.

**Question 21** – Do you agree that an insurer should not recognize a gain at initial recognition of an insurance contract (such a gain would arise when the expected present value of the cash outflows is less than the expected present value of the cash inflows) but, rather, should defer that amount as profit to be recognized in the future? Why or why not?

While we agree that an insurer should not recognize a gain at initial recognition of an insurance contract, we have significant concerns with measuring and presenting the margin within our financial statements. The concept of prominently displaying an entity’s expectation of future profitability within the financial statements is dramatically different from any other areas of existing guidance. We are not aware of any other existing guidance that would prominently display an entity’s future profitability within their financial statements in the same way the proposal would require the margin to be presented for insurance contracts. While there is guidance that would delay revenue recognition through the use of a deferred revenue or unearned premium liability, the presentation and recognition of unearned revenue does not require an entity to display their expectations regarding future costs to arrive at an amount that represents future profitability, which is effectively required under the insurance contracts proposal.

We strongly urge the Board to reconsider the Proposal and inclusion of specifically identifying and measuring the margin within the financial statements. The presentation of future profitability would introduce forward-looking estimates into the financial statements where SEC
registrants will not be protected by the ‘safe harbor’ provisions that apply to forward looking statements in MD&A disclosures. The inclusion of margin in the financial statements could increase the risk of future litigation for insurers when expectations of future profitability change significantly and the margin presented historically within the financial statements would be viewed as inaccurate in hindsight.

**Question 22** – Do you support using a one-margin approach, as is included in this proposed guidance, or an explicit risk adjustment and a contractual service margin (as the IASB proposes)? Please explain the reason(s) for your view.

As noted in our introduction, we believe current U.S. GAAP provides an adequate foundation for measurement; however, should the FASB elect to move forward with the proposal, we would support the one-margin approach over an explicit risk adjustment and a contractual service margin when using the BBA; however, we recommend that the one-margin approach be modified to unlock/update the margin as changes in future cash flows occurs. The estimates underlying the determination of the margin for mortgage insurance contracts would be very subjective and, therefore, we do not agree that either approach will improve financial reporting as it could reduce comparability between similar entities who apply significantly different judgments. Even small changes in assumptions could cause significant variations in earnings that would affect comparability and therefore, would not be useful to the reader of financial statements, particularly those industries, such as mortgage insurance, without widely accepted actuarial tables. In the current model, premiums accounting is fairly uniform, resulting in comparable and transparent results.

**Question 23** – If you support a risk adjustment and a contractual service margin, do you agree with the IASB’s approach to adjust the contractual service margin for changes in estimates of cash flows? Why or why not? Do you agree with the IASB’s approach to not specify acceptable approaches to determine the risk adjustment? Why or why not?

As stated in our response to Question 22, we support a one-margin approach where the margin is updated in a manner similar to the contractual service margin under the IASB’s approach. However, we do not support the inclusion of a risk margin and believe the complexity and subjectivity of such an adjustment for mortgage insurance would not provide decision useful information but would increase the costs and complexity on preparers to determine the risk margin.
Question 24 – Do you agree that a loss at initial recognition of a portfolio of insurance contracts should be recognized immediately in net income (such a loss would arise when the expected present value of the cash outflows exceeds the expected present value of cash inflows)? Why or why not?

While we expect a loss at initial recognition of a portfolio of insurance contracts to be infrequent, we agree that a loss at initial recognition should be recognized immediately when the expected present value of the cash outflows exceeds the expected present value of cash inflows. This approach is similar to our current accounting model, which requires insurance enterprises to establish a premium deficiency reserve (‘PDR’) if the net present value of expected future losses exceeds the net present value of expected future premiums and existing reserves for a given product. The approach of recognizing a loss in such a scenario would also be consistent with current U.S. GAAP, in that we would recognize a loss when it is probable and estimable.

Question 25 – Do you agree with the proposed method(s) of recognizing the margin (that is, as the entity is released from risk under the insurance contracts as evidenced by a reduction in the variability of cash outflows)? If not, what do you suggest and why?

Should the Board elect to move forward with the proposal, we support a recognition approach based on a projected pattern of the expiration of risk. This approach would more closely represent the fundamental purpose of insurance, the transfer of risk. Otherwise, this approach would not reflect the expiration of the risk as accurately as the current model used by the mortgage insurance industry.

Question 27 – Do you agree that if the expected cash outflows (including qualifying acquisition costs) of a portfolio of insurance contracts will exceed the expected cash inflows, an entity should recognize the remaining margin immediately in net income? Why or why not?

Yes, we agree that if the expected cash outflows of a portfolio of insurance contracts will exceed the expected cash inflows, an entity should recognize the remaining margin immediately in net income. This approach is similar to existing U.S. GAAP as it relates to PDR and Financial Guaranty contracts.

Question 31 – Do you agree that users of financial statements would obtain relevant information that faithfully represents the entity’s financial position and performance if, in net income, for all insurance contracts, an entity presents insurance contract revenue and incurred
expenses, rather than only information about changes in margins (that is, the net profit)? If not, why not?

We believe the income statement presentation prescribed in current U.S. GAAP provides more useful information to financial statement users than the presentation currently included in the Proposal. The proposed guidance would remove long-standing performance metrics used by analyst to gauge the performance of the entity.

Although we believe the income statement presentation included in current U.S. GAAP provides a superior presentation, we agree that users of financial statements would prefer a presentation that includes revenue and incurred expenses on the face of the income statement, rather than only information about changes in margins. We believe that separately detailing premiums, loss expenses, acquisition costs and other expenses on the face of the financial statements provides critical and more easily understandable information than a net margin approach, which combines these key elements, reducing visibility into the relevant changes without extensive disclosures, defeating the purpose of the margin approach.

**Question 33** – For contracts measured using the premium allocation approach, do you agree that if the contract has a financing component that is significant to the contract, an entity should adjust the liability for remaining coverage to reflect the time value of money and recognize the accretion of interest with insurance revenue? Do you agree with the practical expedient that an entity should not be required to reflect the time value of money in measuring the liability for remaining coverage (that is, if the entity expects, at contract inception, that the time period between when the policyholder pays all or substantially all of the premium and when the entity provides the corresponding part of the coverage is one year or less)? If not, what do you recommend and why?

If contracts were measured using the PAA, we agree that if the contract has a financing component that is significant to the contract, an entity should adjust the liability for remaining coverage to reflect the time value of money and recognize the accretion of interest with insurance revenue. In addition, we agree with the practical expedient that an entity should not be required to reflect the time value of money in measuring the liability for remaining coverage when certain conditions are met. However, we also believe that given the relatively minimal impact discounting may have on contracts under the PAA, we recommend the Board permit a more simplified application of the discount rate guidance such as using a level discount rate.
**Question 36** – Do you agree that a cedant should record a margin if the expected present value of the cedant’s future cash inflows exceed the expected present value of the cedant’s future cash outflows (thus prohibiting the recognition of a gain at inception upon entering into a reinsurance arrangement) for (a) retrospective reinsurance contracts accounted for using either the building block approach or the premium allocation approach and (b) prospective reinsurance contracts accounted for using the building block approach? If not, what do you recommend and why?

a. For retrospective reinsurance contracts accounted for using the BBA, we agree that the ceding entity should record a margin to overt recording a gain at inception as this approach is consistent with the underlying insurance contracts. For retrospective reinsurance contracts accounted for using the PAA, we agree that a margin should be recorded at inception as this approach would support matching the expected cash flows of the reinsurance agreement with the cash flows already established as a liability for the underlying insurance contracts.

b. We agree that a cedant should record a margin to overt recording a gain at inception of the prospective reinsurance contract accounted for under the BBA approach. This would be consistent with the accounting treatment of the underlying insurance contracts.

**Question 37** – Do you agree that a cedant should estimate the fulfillment cash flows (including the ceded premium) for a reinsurance contract using assumptions consistent with those used to measure the corresponding fulfillment cash flows for the underlying insurance contract or contracts, without reference to the margin on the underlying contracts? If not, what would you recommend and why?

We agree that the cedant should use the assumptions which were used in measuring the fulfillment cash flows for the insurance contracts without considering the margin on the insurance contracts. Utilizing consistent assumptions relating to the risk and economic characteristic will provide consistency in accounting for the insurance and reinsurance contracts. In addition, we do not agree that the cedant should consider the risk of nonperformance by the reinsurer similarly as the nonperformance risk of the direct writer should not be included in determining the likelihood of fulfilling its obligations. The economics in determining the reinsurance contract structure, including the ceded premium rate, would have considered the risk of nonperformance of the reinsurer.
**Question 40** – Do you agree with the presentation requirements included in this proposed Update? If not, what would you recommend and why?

We believe the proposed presentation requirements are unnecessarily complex and do not provide decision useful information. The significant change from existing presentation requirements will result in losing key performance metrics that are commonly used by management and analysts to evaluate and compare results. We urge the Board to consider a presentation requirement that largely results in preserving the existing presentation guidance for insurance entities.

**Question 41** – Do you agree with the disclosure requirements included in this proposed Update? If not, which disclosure requirement(s) would you change and why? Are there any additional disclosures that would provide decision-useful information and why? Do you think that any of the disclosure requirements included in this proposed Update would not provide decision-useful information and should not be required? If so, which ones and why?

No, the quantity and depth of the required disclosures are excessive, and certain disclosures that would be required do not provide meaningful information, but rather serve to overwhelm the reader with information that is not useful for decision making.

**Question 47** – Describe the nature of the incremental costs of adopting the guidance in this proposed Update, distinguishing between one-time costs and ongoing costs. Explain which aspects of the guidance in this proposed Update are driving those costs and include ideas to make the proposal more cost effective.

The aspect of the guidance which drives most of the costs is implementing the present valued cash flows and educating various parties including internal personnel and external financial statement users. We view the BBA as being more costly than the PAA partially due to current financial statement presentation being similar to the proposed financial statement presentation of the PAA and thus reducing the education requirements of various parties.

Initial costs required to transition to a new accounting model are expected to be significant. Start up costs will include, but not be limited to:

- Train, educate, and perhaps hire, the necessary executive, accounting, and actuarial personnel
• Communicate, educate, and inform shareholders, regulators, rating agencies, creditors and other stakeholders. (Given the extent of the proposed changes this cost could be very substantial)
• Design and develop systems and financial models that conform to these standards
• Potential acquisition of modeling tools or system hardware to accommodate the models
• Aggregate, acquire and/or maintain data required to execute the probability based models
• Redesign and develop external financial reports and related disclosures
• Redesign and develop internal reports required to monitor and analyze performance
• Design and development of internal control practices and procedures. Educate, inform, and assist internal and external auditors in the examination of the new models.

Ongoing evaluation and maintenance costs are difficult to assess, however, once developed and transitioned, we expect ongoing costs to remain significant due to tracking and analyzing transactions at a level which we currently do not record for accounting purposes.