



December 15, 2010

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

File Reference No. 1870-100

Re: Discussion Paper – Preliminary Views on Insurance Contracts

Dear Sir:

We at MBIA Inc. (MBIA or the Company) appreciate the opportunity to comment on the FASB's recently issued Discussion Paper on accounting changes for insurance contracts.

MBIA Inc. is the holding company of MBIA Insurance Corporation (MBIA Corp.) and National Public Finance Guarantee Corporation (National). Through MBIA Corp. and National, MBIA is world's largest financial guarantor providing financial guarantee insurance and other forms of credit protection to public finance and structured finance issuers and capital market participants on a global basis. The Company's financial guarantee insurance provides unconditional and irrevocable guarantees of the payments of the principal and interest or other amounts owed on insured obligations when due.

We appreciate the effort that the FASB is making to develop a single accounting standard for insurance contracts that incorporates ideas proposed by the International Accounting Standards Board (IASB) in its Insurance Contracts Exposure Draft. We think congruence between FASB and IASB standards is critical to providing investors with a stable financial reporting framework. It would be unfortunate if the FASB were to adopt a standard in the near term that was at variance with the emerging International Financial Reporting Standards.

We encourage the FASB and the IASB to continue to work together to resolve the remaining few – but significant – differences between both boards' proposals. For financial guarantee insurance companies, the FASB's proposal comes after the issuance of ASC 944-20, "Insurance Contracts – Financial Guarantee Insurance Contracts" (formerly FAS 163), which was effective in January 2009 and which greatly changed the way we recognize and measure our insurance contracts. In 2010, the implementation of FAS 167 also significantly changed accounting for some of our insurance contracts. Each of these changes requires a significant effort by the Company to implement and educate users of our financial statements on how the changes impact reported operations, equity and other key financial metrics. We believe that it should be a priority for the Board and other regulators to minimize repetitive changes to the same or similar accounting principles as we work towards a single global accounting standard.

Generally, we support the fulfillment model currently proposed in the Discussion Paper, which is largely consistent with ASC 944-20. Our concerns, however, relate primarily to four areas of the

Discussion Paper: its scope, determination of discount rates, the composite margin approach and the presentation of financial results. These issues are outlined as follows.

**Scope of Standard:**

We interpret the Scope, as described in the Discussion Paper, to include the majority of financial guarantee insurance contracts. We support a single definition of insurance contracts that is independent of the type of entity that issues it (including banks or other financial institutions). During the deliberations on FAS No. 163, “Accounting for Financial Guarantee Insurance Contracts” (currently ASC 944), the Board concluded that financial guarantee insurance contracts that provide loss protection to the holder of a financial obligation in the event of a default are insurance contracts. We support defining financial guarantee insurance contracts within the scope of the Discussion Paper.

**Discount Rates:**

The Discussion Paper suggests that insurance contract liabilities should be valued for balance sheet purposes at their present values, using risk-free discount rates, with an adjustment for illiquidity. We believe this approach is inherently flawed and fails the “faithful representation” test. Insurers, including MBIA, price their products assuming an investment return that is consistent with their capital management objectives. Generally, our business requires investment grade or higher ratings, but not “risk free” ratings. The counterparts to our insurance policies understand that there is an amount of counterparty risk they take on through their contracts with us. The companies are managed to high confidence around maintaining investment grade ratings. The cost to settle liabilities should reflect the counterparty risk that the holder of the policy bears, which we believe is related to generic returns on investment grade bond portfolios. The standard should support this aspect of the business model, without providing perverse incentives to take outsized investment risks to generate discount rates that undervalue liabilities. Therefore, we are supportive of a standard that calls for discounting insurance liabilities to present value at discount rates that reflect an investment grade bond return consistent with the expected life and duration of the liabilities. The “investment grade” criterion provides for adequate comparability across providers – the primary variance among providers would be based on the duration, average life and liquidity characteristics of the liabilities underwritten by the insurer.” This approach is consistent with the discount rate approach used for defined benefit pension plans as described in ASC 715-30-35 (formerly FAS 87).

**Composite Margin Approach:**

The Discussion Paper indicates that recognition of the composite margin into earnings should reflect the exposure to uncertainties in future cash flows from providing insurance coverage. We agree with this principle. However, the Discussion Paper is overly prescriptive in defining how the composite margin should be recognized into earnings; even providing a formula for calculating the amortization of the composite margin. The formula provided does not represent the economics of financial guarantee insurance contracts. This rules-based guidance cannot possibly fit all types of insurance.

For example, insurance contracts with a single upfront premium where losses, if any, are expected at the end of the contract would result in an abnormal pattern of recognition of the composite margin into earnings. Using the formula provided by the Discussion Paper, this premium and claims-paying model results in a revenue recognition pattern which is not consistent with the principle of the Discussion Paper. The prescriptive formula provided does not meet the objective for financial guarantee insurance contracts.

In ASC 944-605 (formerly FAS 163, paragraph 16), premium revenue related to financial guarantee insurance contracts is recognized in proportion to the amount of insurance protection provided, by applying a constant-rate methodology that incorporates the present value of expected cash inflows from premiums using a current risk-free discount rate. Loss reserves are recognized when the present value of expected net cash outflows for claims payments exceed the unearned premium revenue using a current risk-free discount rate. We believe that the guidance and methodology within FAS 163 meets the principle, but is wholly incongruous with the formula for earnings recognition as currently defined in the Discussion Paper. We support a principles-based approach with sufficient disclosures to enable readers to understand the preparer's formulas for revenue recognition, which would facilitate independent modeling and projections.

**Presentation:**

Essentially all financial statement readers are familiar with insurance contracts and have experience paying premiums and submitting claims to insurance companies. "Premiums" and "claims" are important terms with which readers of our financial statements are comfortable. Yet the Discussion Paper seems to shift the focus away from premiums and claims to margins expected on insurance contracts, and is not clear how these updates and changes will be presented.

MBIA does not support the margin presentation approach. We support the allocated premium presentation approach as it presents the financial statements in a manner that more financial statement readers are familiar with while maintaining revenue recognition in accordance with the principles of the Discussion Paper. We encourage future discussions to ensure that recognition of premiums as well as expected and earned claims are presented in a manner consistent with how obligations to policyholders are fulfilled.

Thank you for the opportunity to contribute to the current deliberations on this Discussion Paper. Should you have any questions or require any clarification concerning the matters addressed in this letter please do not hesitate to contact our Director of Accounting Policy, Greg Wilson, at 914-765-3381.

Sincerely,

C. Edward Chaplin  
Chief Financial Officer  
MBIA Inc.