WISDOM IN ACTION

October 17, 2013

Ms. Susan M. Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Re: File reference No. EITF-12Gr:
Comment letter on Exposure Draft – Consolidation (Topic 810) – Measuring the Financial Liabilities of a Consolidated Collateralized Financing Entity a consensus of the FASB Emerging Issues Task Force

Dear Ms. Cosper:

MBIA Inc. (together with its subsidiaries, "MBIA") appreciates the opportunity to comment on the FASB's Proposed Accounting Standards Update, *Consolidation (Topic 810) – Measuring the Financial Liabilities of a Consolidated Collateralized Financing Entity a consensus of the FASB Emerging Issues Task Force* (the "Update"). MBIA operates one of the largest financial guarantee insurance businesses in the industry and is a provider of asset management advisory services. We also manage several financing programs. The activities of these programs include issuing debt and investing the proceeds in specified financial assets. MBIA prepares financial statements and other filings in accordance with regulations provided by the SEC for large accelerated filers.

As part of our insurance business activities, MBIA provides credit protection to issuers of obligations that are assessed to be variable interest entities ("VIE") according to ASC 810, *Consolidation*, and would meet the definition of a collateralized financing entity in the proposed Update. MBIA's involvement with these VIEs is limited to its rights and obligations pertaining to its financial guarantee insurance contract. MBIA may have the ability to direct certain activities of a VIE depending on the facts and circumstances, including the occurrence of certain contingent events, and these activities may be considered the activities of a VIE that most significantly impact the entity's economic performance (the power criterion). MBIA generally considers its guarantee of principal and interest payments of insured obligations, given nonperformance of a VIE, to be an obligation to absorb losses of the issuer that could potentially be significant to the VIE (the losses-benefits criterion). When MBIA determines that both the power criterion and the losses-benefits criterion are met related to a VIE, MBIA consolidates the VIE as primary beneficiary. MBIA's exposure to a consolidated VIE is limited to the credit protection provided on the insured obligations, and MBIA has no explicit or implicit obligation to provide additional financial support.

Upon the consolidation of most VIEs, MBIA elected the fair value option for eligible financial assets and financial liabilities. MBIA considered fair value to be a more appropriate measurement model to represent the risks associated with its exposure to the respective VIEs.

In general, MBIA does not agree with the measurement guidance for financial liabilities in the proposed Update. The proposed Update would amend *Consolidation (Topic 810)* to add measurement guidance that is inconsistent with the fair value measurement of financial liabilities guidance within *Fair Value Measurement (Topic 820)*. In accordance with *Fair Value Measurement (Topic 820),* fair value measurement of financial liabilities of consolidated VIEs that are securitizations would often be based on observable inputs, including market prices, which generally are categorized within Level 2 of the fair value hierarchy, whereas the fair value measurement of the loan collateral generally would not be based on observable market prices and generally categorized under Level 3. Under the proposed Update, fair value of financial liabilities would involve a multi-step calculation and allocation approach which would not be considered fair value based on paragraph 810-10-50-20 of the proposed amendments. The calculated value allocated to the financial liabilities would be derived based on a Level 3 valuation of the financial assets when a Level 2 fair value measurement would be available for the financial liabilities. This approach increases complexity and would not improve the measurement of the fair value of financial liabilities. As a result, MBIA does not believe that the proposed Update provides a meaningful benefit to users of its financial statements.

Notwithstanding our comments in the preceding paragraph, clarification of certain sections would assist preparers in the implementation of the proposed Update to enhance comparability and limit unintended differences in interpretation. Paragraph 810-10-30-2A should clarify whether financial assets measured at fair value include debt securities classified as available for sale under ASC 320, *Investments – Debt and Equity Securities*. Clarification should be provided if premiums paid to guarantors would not be considered a beneficial interest that represents compensation for services rendered by the reporting entity under b.2. of paragraphs 810-10-30-2A and 810-10-35-6 potentially under paragraphs 810-10-30-2C and 810-10-35-8. In addition, the proposed Update introduces a new measurement basis of financial liabilities based on the calculation in paragraphs 810-10-30-2A and 810-10-35-6 without providing any presentation guidance.

Our responses to questions requested by the Board are included in the Appendix.

Please contact Greg Wilson at (914) 765-3381 with any questions.

Yours sincerely,

Greg Wilson

Director, Accounting Policy
MBIA Inc.

APPENDIX

Responses to Questions

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)?

MBIA Response:

MBIA does not agree with the measurement of financial liabilities guidance in the proposed Update, and would support the retention of the fair value option as is currently permitted to measure the financial liabilities of consolidated VIEs, including consolidated collateralized financing entities.

The proposed Update would add additional measurement guidance pertaining to financial liabilities to the Codification that is counterintuitive to Fair Value Measurement (Topic 820), which increases complexity and creates inconsistency. Measurement of the financial liabilities of consolidated collateralized financing entities based on the calculation in the proposed Update would not be an improvement over fair value measurement, particularly when fair value is based on observable market prices.

The principles of consolidation accounting in *Consolidations (Topic 810)* paragraph 810-10-35-3 provide that consolidated VIEs would be accounted for in consolidated financial statements as if the VIE were consolidated based on voting interests. The fair value option should be permitted to be elected to fair value financial liabilities consistent with this principle as would be permitted for eligible financial liabilities of other consolidated subsidiaries.

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? Do you also agree that a reporting entity that had not previously measured all eligible financial assets and financial liabilities of the consolidated collateralized financing entity at fair value should be permitted to elect to apply the amendments in this proposed Update to those collateralized financing entities that exist at the date of adoption? Do you agree that a reporting entity that consolidates for the first time a collateralized financing entity should have an option to not apply the amendments in this proposed Update?

MBIA Response:

Given that MBIA does not support the proposed amendment to measurement of financial liabilities in paragraph 810-10-30-2A, a cumulative-effect adjustment for the remeasurement would need to be recognized for consolidated VIEs accounted for under the fair value option under the modified retrospective or retrospective approach to enhance comparability and to avoid recognition of differences in measurement approach from prior periods in the interim period after the effective date.

A reporting entity should be permitted to apply the proposed Update on a modified retrospective method of adoption related to securitizations or other asset-backed financing entities that applied the unpaid principal balance measurement alterative to fair value measurement upon the initial adoption of FAS 167 to resolve any diversity in practice.

The fair value option election for eligible financial liabilities should be permitted upon the initial consolidation of a collateralized financing entity as previously stated in our above comments. The option not to elect to measure the financial liabilities of a consolidated collateralized financing entity according to the proposed Update when the financial assets are measured at fair value should be permitted to align with the objectives of the fair value option guidance in *Financial Instruments (Topic 825)*.

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.

MBIA Response:

The decision to apply the proposed Update should be permitted on entity-by-entity basis in order for the decision to consider significant factors including the design of the entity and the nature of the risk and reward characteristics of the entity.

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?

MBIA Response:

The calculated value in paragraphs 810-10-30-2A and 810-10-35-6 lacks a basis in accounting principles, and would be designed to resolve the diversity in practice described in paragraphs BC7 and BC8 of the Background Information. While prescriptive guidance would not be necessary, additional guidance on the methodology to allocate the calculated value to the individual liabilities or a basis for conclusion would provide guidance on the Board's intent.

Question 5: For users, would disclosures about the method used to allocate the fair value of the financial assets to the individual liabilities and the value of the beneficial interests retained by the reporting entity provide decision-useful information?

MBIA Response:

Question applies to users. MBIA is a preparer.

Question 6: Do you agree that the proposed amendments should be applied using a modified retrospective approach, with the option to apply the proposed amendments retrospectively for reporting entities that have previously measured the financial assets and financial liabilities of the collateralized financing entity at fair value? If not, please explain why.

MBIA Response:

Yes. The transition guidance for reporting entities that have previously measured the financial assets and financial liabilities of the collateralized financing entity at fair value would allow reporting entities to resolve the diversity in practice and meet the objective of the proposed Update.

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

MBIA Response:

Yes. Permitting the early adoption of the proposed amendments would allow preparers to resolve any diversity in practice which is the objective of the proposed Update.

Question 8: The proposed amendments would apply to public and nonpublic entities. Should the proposed amendments be different for nonpublic entities? If so, please describe how and why the requirements should be different.

MBIA Response:

Question applies to nonpublic entities. MBIA is a public entity.

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

MBIA Response:

A minimum of six months would be required from the date any final Update was issued to the beginning of the first interim period when the amendment in the final Update would be effective. Implementation of the proposed Update would require design, testing, and maintaining financial models and allocation models that presently do not exist, along with changes to existing processes and internal controls over financial reporting. In addition, disclosures in the financial statements would require changes.

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

MBIA Response:

Implementation of the proposed Update would involve changes to processes and practices and change presentation in the statement of comprehensive income and disclosures including fair value hierarchy tables. Additional cost may be incurred to develop models to comply with the proposed measurement guidance. For MBIA, the benefits of the proposed Update would not exceed the costs incurred related to implementation.