

July 31, 2015

Ms. Susan M. Cospers, Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116
director@fasb.org

Re: Impact of Accounting for Variable Interest Entities on the Financial Guaranty Insurance Industry

Dear Ms. Cospers:

We, Ambac Financial Group, Inc., Assured Guaranty Ltd., MBIA Inc., and Syncora Holdings Ltd. (collectively “financial guarantors”), would like to draw to your attention the impact the variable interest entity (“VIE”) accounting under FAS 167, *Amendments to FASB Interpretation No. 46(R)*, has had on the financial guaranty insurance industry’s accounting for its contracts under FAS 163, *Accounting for Financial Guarantee Insurance Contracts*. FAS 167 and FAS 163 have been codified into ASC 810 and ASC 944, respectively. Because ASC 810 and ASC 944 also cover accounting topics that go beyond this letter’s scope, we will refer to FAS 167 and FAS 163 throughout the remainder of this letter.

Financial guarantors insure municipal bonds and structured finance debt through financial guaranty insurance contracts. A financial guaranty insurance contract guarantees the timely payment of principal and interest on debt securities. As part of our business, we provide financial guaranties on certain investment-grade (at inception) tranches of debt obligations of special purpose entities, typically structured finance variable interest entities (“FG VIEs”). FAS 167 resulted in the consolidation of certain FG VIEs and the elimination of relevant and useful FAS 163 accounting by financial guarantors.

We firmly believe the financial statement presentation of FG VIEs that are consolidated in accordance with FAS 167 is confusing and potentially misleading to users of our financial statements. Our companies’ investors, analysts, Boards, credit banks, rating agencies and regulators generally reverse, to the extent possible, the impact of FAS 167 in regards to FG VIEs when evaluating our GAAP financial statements (see Appendix A for detailed comments from an equity analyst) or rely on statutory financial statements prepared under principles that prohibit consolidation of FG VIEs. These parties prefer to review our results based on the financial guaranty insurance accounting model under FAS 163 since insurance accounting is more reflective of the economics of our business.

We would like the FASB to consider changes in FAS 167 that would result in our industry’s financial statements being more transparent to its users, while at the same time saving our companies time and money to prepare our GAAP financial statements.

Background

Effective January 1, 2009, the FASB issued FAS 163, which significantly changed the methodology for financial guaranty insurance premium revenue and claim liability recognition and measurement. FAS 163 was an extensive project at the FASB to develop a standard that best reflects the economics of a financial guaranty insurance contract. FAS 163 also expanded the disclosures regarding an insurance enterprise's risk management activities, loss reserves, and premium receivables.

FAS 163 provides a specific accounting model for all financial guaranty insurance contracts. We believe it takes into account the relevant business aspects of our product and adequately reflects the economics of our business.

Under FAS 163, a financial guarantor records a premium receivable asset, representing future installment premiums, and unearned premium revenue ("UPR"), representing its stand-ready obligation, at contract inception. In subsequent periods, if probability-weighted expected losses are in excess of the stand-ready obligation for our exposure to the FG VIE guaranteed debt, then a claim liability (i.e., loss reserve) is recorded. The UPR is recognized as revenue over the coverage period.

Revisions were made to the VIE consolidation accounting guidance in the form of FAS 167, effective January 1, 2010, that caused it to supersede much of the accounting guidance in FAS 163 for certain FG VIEs. Under FAS 167 a reporting entity must consolidate a VIE if it meets both parts of the "power and economics" test, which are: i) the power to direct activities of the VIE that most significantly impact the VIE's economic performance (power) and ii) the obligation to absorb losses of the VIE that potentially could be significant to the VIE or the right to receive benefits from the VIE that potentially could be significant to the VIE (economics).

Since the purpose of a financial guaranty insurance contract is to absorb expected losses of the FG VIE, it is generally assumed that the financial guarantor will always meet the "economics" criterion of the above consolidation test. As such, financial guarantors focus on evaluating the "power" criterion of the consolidation test for an FG VIE under FAS 167, further described in the next section.

Loss remediation rights under FAS 167

Certain of our financial guaranty insurance policies include contingent loss remediation rights over FG VIEs that may cause the financial guarantor to consolidate the FG VIE since such rights meet the "power" criterion of the VIE consolidation test. These rights are generally triggered due to events that occur subsequent to an FG VIE's creation, such as deterioration in a transaction's performance or in a servicer's or collateral manager's financial strength. These rights allow the financial guarantor to take action to improve a transaction's performance and minimize potential losses under the financial guaranty insurance contract from developing due to inadequate servicing / collateral management. Depending on the transaction, such contingent loss remediation rights may include: i) transferring servicing and/or collateral management to an entity that, in the financial guarantor's opinion, is better equipped to service / manage a deal with distressed assets, ii) accelerating repayment of the insured debt, and iii) foreclosing on or liquidating the underlying collateral.

Our issue pertains to FG VIEs that we did not originate, for which we do not act as the operational decision maker, such as a servicer or collateral manager, and for which we did not set the underwriting guidelines of the VIE's assets or participate in selecting those assets.

For transactions where we have the power to transfer servicing or collateral management, we do not have control over the servicer / collateral manager to dictate its respective activities. We cannot change the terms of the original deal documents that specify what the servicers / collateral managers are required to do. We merely can move the servicing or collateral management from one party to another to try to minimize additional losses in the transaction from developing due to inadequate servicing. The new servicer / collateral manager would be required to follow the servicing guidelines specified by the original deal documents.

However, the guidance in ASC 810-10-25-38C indicates that the party holding a unilateral ability to exercise kick-out rights may be the party with the power to direct the activities of a VIE that most significantly impact the entity's economic performance. This has led financial guarantors to conclude that when this unilateral power becomes effective, it is determinative insofar as the holder of this power is the primary beneficiary regardless of the limited true substance that these rights bestow on the holder.

We understand that the guidance in ASC 810-10-25-38C was added as an anti-abuse provision to prevent entities that originated deals and controlled their servicing or collateral management at inception from assigning these rights to a third-party to avoid consolidation under the proviso that these rights could be recaptured at any time through unilateral kick-out rights. Our fact pattern here is clearly not the same. The rights that we are concerned with pertain to those deals that we did not originate nor act as servicer / collateral manager nor define the guidelines for such. These are not rights we originally possessed and are giving away to avoid consolidation of the VIEs.

Although the loss remediation rights described above may not meet all the definitional requirements of "protective rights" under ASC 810-10-20, from an economic perspective we clearly view these rights as protective in nature. That is, we obtained these contingent loss remediation rights at deal inception that would become enforceable only upon an adverse event occurring. The purpose of holding these rights is to reduce ultimate claim payments under our financial guaranty obligation due to inadequate servicing or collateral management.

Accounting implications

The following table summarizes the differences in our accounting for our financial guaranty insurance contracts under the financial guaranty insurance accounting (FAS 163) and consolidation accounting (FAS 167) models:

	FAS 163 (ASC 944) Accounting		FAS 167 (ASC 810) Accounting	
	Premiums	Losses	FG VIE Assets	FG VIE Liabilities
Balance sheet	Unearned premium reserves (“UPR”) are established as part of the stand-ready obligation. Premium receivables are recorded for future installment premiums.	Loss reserves are recorded as part of the stand-ready obligation to the extent expected losses exceed UPR. Expected losses are calculated based upon probability-weighted cash flows discounted at a risk-free rate.	Fair value option typically elected. Fair valued using level 2 or a level 3 modeled value. Assets are not available for the Company’s general corporate purposes.	Fair value option typically elected. Fair valued using level 2 or a level 3 modeled value that incorporates the Company’s own credit risk, which can be significantly higher than the risk-free rate used in the ASC 944 model. Liabilities can include those without recourse to the general assets of financial guarantors.
Income statement	Premium revenues are earned over the period of risk of the contract and reflect the compensation the Company received to accept the risk.	Incurred losses are recognized based on changes in expected losses in excess of UPR.	Changes in the fair value.	Changes in the fair value.
Disclosures	Schedule of future premiums expected to be collected; premium receivable rollforward; schedule of future premium revenue; and information on accelerated premium revenue.	Loss reserve rollforward; representation and warranty (“R&W”) subrogation recoverable rollforward; detailed schedule of loss reserves and recoverables by risk type, including below investment grade exposures; and description of risk management process.	Number and type of VIEs along with assets and liability values; contractual maturity of VIE liabilities; impact of consolidating VIEs on net income and shareholders’ equity; fair value methodology for VIE assets and liabilities; and rollforward of level 3 assets and liabilities. Note that a component of FG VIE liabilities that are consolidated relate to debt tranches that were not insured by the financial guarantor and have no recourse to the guarantor’s corporate assets. Therefore, much of the above disclosure is not useful to users of our financial statements. Disclosures required by investments, debt, and fair value measurement related to FG VIEs. Complex disclosure requirements that are not relevant or useful.	

In our view, under the financial guaranty insurance accounting of FAS 163, the main economic components of our business, namely our premiums and losses, are presented more clearly than under the VIE consolidation accounting of FAS 167. When we consolidate FG VIEs under FAS 167, premium and loss items are replaced by movements in the fair value of FG VIE assets and liabilities, which we believe significantly obscures our financial results for reasons discussed below (see Appendix B for an example of the impact of FAS 167 on a financial guarantor’s financial statements).

When a financial guarantor’s loss remediation rights require it to consolidate a VIE under FAS 167, we reverse our financial guaranty accounting under FAS 163. This immediate switch to the FAS 167 VIE consolidation model occurs at the point in time when the expected loss recognition and measurement contemplated under FAS 163 insurance model becomes most useful to users as the

potential for claim payments become more likely. The impact of FAS 167 VIE consolidation eliminates intercompany insurance contract accounting effectively unwinding relevant and useful FAS 163 accounting.

Furthermore, when consolidating FG VIEs, the fair value option is typically elected by financial guarantors due to operational challenges which makes it impractical for us to account for the FG VIE's individual assets and liabilities at a detailed level using historical cost basis. The use of the fair value option incorporates each Company's own credit in the calculation of fair value of FG VIE liabilities. As a result of the differing impact that the distress in the financial guaranty industry has had since the financial crisis, the credit risk of financial guarantors varies widely across the industry; whereas, under FAS 163, a risk-free rate is consistently utilized to discount loss reserves. For a financial guaranty insurance company, we believe that the latter presentation under FAS 163 is preferable to the users of the financial statements as it presents a clearer picture of the financial guarantor's actual exposure and improves comparability across the industry, which was also one of the main objectives of the FASB when it deliberated FAS 163.

In addition to the loss of useful claims and revenue presentation, consolidation may result in financial guarantors presenting some insurance policies under FAS 163 at the outset and then transitioning to FAS 167 as the result of trigger events occurring, which is clearly confusing to financial statement users. Adding to this confusion is that insured transactions covering the same types of assets and experiencing the same level of adverse performance may be accounted for using two different accounting models to the extent the provisions related to the respective loss remediation rights in these transactions are structured differently.

We also provide non-GAAP information to our investors and equity analysts in our SEC filings each reporting period that reverses the accounting for FAS 167 for our consolidated FG VIEs and substitutes the financial guaranty insurance accounting under FAS 163 for these entities or accounting under statutory accounting principles. As noted in the letter in Appendix A, this information is useful to analysts in trying to evaluate our business. Applying only the financial guaranty accounting model over the life of the financial guaranty contract would preclude the need for these non-GAAP disclosures and enhance comparability of financial guarantors by reducing non-GAAP disclosures.

We would further note that consolidated FG VIE assets and liabilities represent a significant portion of a financial guarantor's total assets and liabilities. We believe such a balance sheet "gross up" does not properly reflect the economic exposure under our financial guaranty contracts.

In conclusion, for all the previously described reasons in this letter, we believe that financial guaranty insurance accounting under FAS 163 is a more relevant measure of the financial guarantors' economics than is the consolidation of these FG VIEs under FAS 167.

We believe there are several alternatives for amending existing ASC 810 guidance that would result in a significant improvement to the transparency of financial guarantors' GAAP financial statements:

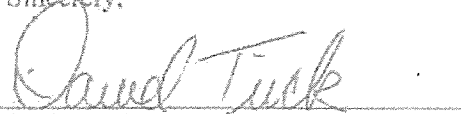
1. A very narrow scope exception to FAS 167 that allows for the exclusion from FAS 167 variable interests related to financial guaranty insurance contracts accounted for under FAS 163. We believe the only parties impacted by this would be financial guaranty insurance companies.

2. A modification to existing FAS 167 guidance that allows for contingent loss remediation rights not to be determinative of control (regardless of whether such rights have been triggered) but merely assessed qualitatively as an anti-abuse provision. We believe this modification would change our assessment of whether we are the control party due to the limited true substance that these rights convey to us.
3. The determination that a financial guarantor's loss remediation rights that are triggered subsequent to an FG VIE's origination need not be reassessed.


We believe the adoption of alternative 1 above provides the greatest improvement to the transparency of our financial statements since it avoids consolidation of any VIE as a result of having a variable interest related to a financial guaranty contract.

We would be happy to meet with you and discuss this issue in more detail.

Sincerely,



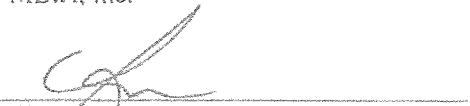
David Trick
Senior Managing Director,
Chief Financial Officer and Treasurer,
Ambac Financial Group



Robert A. Bailenson
Chief Financial Officer,
Assured Guaranty Ltd.



C. Edward Chaplin
President, Chief Financial Officer, and
Chief Administrative Officer
MBIA, Inc.



Claude LeBlanc
Chief Financial Officer,
Syncora Holdings Ltd.

APPENDIX A

Letter received by Assured Guaranty regarding FAS 167 and FAS 163 accounting

Geoffrey Dunn email to FASB on March 20, 2012

I recently learned that the FASB is potentially evaluating VIE accounting treatment under FAS 167 as it pertains to the financial guarantors and wanted to weigh in on the topic to the extent feedback is welcomed. I have been a sell-side analyst following the financial guaranty sector for the last 15 years and, as such, obviously spend a lot of time assessing the companies' financial statements and the implications for the debt and equity instruments. To the extent new accounting pronouncements can provide greater clarity and insight into a company's or industry's operations and financial results, I fully support change. However, in the case of FAS 167's VIE accounting requirements for financial guarantors, I believe that the pronouncement has only served to unnecessarily distort and muddy the companies' GAAP financial statements to the point where we no longer bother with the GAAP results. Rather, we assess and model the companies excluding VIEs (and FAS 133 and FAS 157 for that matter), aided by the non-GAAP statements offered by AGO and MBI in their respective financial supplements, and on a statutory basis.

As I understand it, FAS 167 requires the consolidation of VIEs in an enterprise's financial statements to the extent that that entity is deemed to have a *controlling* financial interest in the variable interest entity and that this is technically imposed for FGs when a transaction has deteriorated to the point where an FG's right to transfer servicing, a typical loss mitigation provision in structured transactions, is triggered. Under FAS 163, which we believe more accurately accounted for these insurance exposures, premiums for the insurance cleanly flowed through the statements and loss development, to the extent it developed, was addressed through reserve provisions as would any other deteriorating risk. Under FAS 167, however, when a transaction deteriorates enough, a loss mitigation tool - the ability to transfer servicing - all of a sudden triggers the consolidation of that VIE, completely distorting the true economic implications of that deal to the company. At a stage in development where transparency is more valued, FAS 167 effectively drives the financial presentation in the other direction.

To put it bluntly, I ignore FAS 167 and the consolidation of VIEs into the financial guarantors' financial statements, viewing the GAAP results as now being distorted by the noise of this accounting metric. We do not see any economic or investment implications to a financial guarantor from its insurance of a structured finance issue beyond the premiums and loss content presented by that risk and believe that the non-GAAP statements now offered by the financial guarantors better reflect this. If FASB were to reconsider its application of FAS 167 to the financial guarantors, we believe that a shift back to accounting for VIEs under FAS 163 would more accurately reflect the developments of these insurance exposures and return FG financial statements to a more transparent and useful presentation basis.

If at any time you would like an example of our FG models or would like to follow up my above thoughts with a conversation, I would be more than happy to do so.

Thank you for your time and consideration,

Geoffrey Dunn

*Geoffrey M. Dunn, CFA
Dowling & Partners
190 Farmington Ave.
Farmington, CT 06032*

APPENDIX B**Sample Condensed Consolidated Pro Forma Balance Sheet
As of December 31, 20XX**

	US GAAP results as reported	Reversal of the impact of FAS 167	US GAAP ex-FAS 167 impact
Assets			
Total investment portfolio	\$ 11,098,765	\$ 40,171 a	\$ 11,138,936
Cash	214,544	(5,921) b	208,623
Premiums receivable, net of ceding commissions payable	1,002,852	27,540 c	1,030,392
Salvage and subrogation recoverable	367,718	258,066 d	625,784
Deferred tax asset	770,943	5,394 e	776,337
FG VIE assets, at fair value	2,819,077	(2,819,077) f	-
Other assets	1,817,632		1,817,632
Total assets	\$ 18,091,531	\$ (2,493,827)	\$ 15,597,704
Liabilities			
Unearned premium reserve	\$ 5,962,799	\$ 274,235 c	\$ 6,237,034
Loss and loss adjustment expense reserve	679,011	61,578 d	740,589
Deferred tax liability	-	223,587 e	223,587
FG VIE liabilities with recourse, at fair value	2,396,945	(2,396,945) f	-
FG VIE liabilities without recourse, at fair value	1,061,497	(1,061,497) f	-
Other liabilities	3,272,843		3,272,843
Total liabilities	13,373,095	(2,899,042)	10,474,053
Total shareholders' equity	4,718,436	405,215 g	5,123,651
Total liabilities and shareholders' equity	\$ 18,091,531	\$ (2,493,827)	\$ 15,597,704

- a To reinstate investment accounting for bonds issued by FG VIEs that were purchased by the Company to mitigate insurance losses
- b To reverse impact of quarter lag of claim payments made by consolidated FG VIEs
- c To reinstate insurance premium related amounts on consolidated FG VIEs
- d To reinstate insurance loss and loss adjustment expense related amounts on consolidated VIEs
- e To reverse deferred tax impact of FAS 167
- f To deconsolidate FG VIEs at fair value
- g Cumulative impact of FAS 167 on retained earnings

Sample Condensed Consolidated Pro Forma Income Statement For the Year Ended December 31, 20XX

	US GAAP results as reported	Reversal of the impact of FAS 167	US GAAP ex-FAS 167 impact
Revenues			
Net earned premiums	\$ 920,055	\$ 74,656 a	\$ 994,711
Net investment income	391,017	8,313 b	399,330
Net realized investment gains (losses)	(17,992)	-	(17,992)
Other income	658,217	-	658,217
Net change in FV of FG VIEs	(131,984)	131,984 c	-
Total Revenue	1,819,313	214,953	2,034,266
Expenses			
Loss and loss adjustment exp	461,890	92,679 d	554,569
Amortization of DAC	30,849	-	30,849
Interest expense	99,112	-	99,112
Other operating expenses	193,000	-	193,000
Total Expenses	784,851	92,679	877,530
Income before income taxes	1,034,462	122,274	1,156,736
Provision for income taxes			
Current	(126,904)	-	(126,904)
Deferred	385,746	42,796 e	428,542
Total provision for income taxes	258,842	42,796	301,638
Net Income	\$ 775,620	\$ 79,478	\$ 855,098

- a To reinstate insurance premium income on consolidated FG VIEs
b To reinstate investment accounting for bonds issued by FG VIEs that were purchased by the Company to mitigate insurance losses
c To reverse change in fair value of FG VIEs
d To reinstate insurance loss and loss adjustment expenses on consolidated VIEs
e To reverse deferred tax impact of FAS 167