



December 19, 2018

Technical Director
File Reference No. 2018-300
Financial Accounting Standards Board (FASB)
401 Merritt 7
PO BOX 5116
Norwalk, CT 06856-5116

Re: Codification Improvements – Financial Instruments

Assured Guaranty Ltd. (“Assured Guaranty” or the “Company”) is a public company traded on the NYSE. Through its operating subsidiaries, Assured Guaranty provides credit protection products to the United States, international public finance markets (including infrastructure), and structured finance markets. The Company applies its credit underwriting judgment, risk management skills and capital markets experience primarily to offer financial guaranty insurance that protects holders of debt instruments and other monetary obligations from defaults in scheduled payments. The Company markets its financial guaranty insurance directly to issuers and underwriters of public finance and structured finance securities, as well as to investors in such obligations. The Company guarantees obligations issued principally in the U.S. and the United Kingdom, and also guarantees obligations issued in other countries and regions, including Australia and Western Europe. The Company also provides other forms of insurance that are in line with its risk profile and benefit from its underwriting experience.

We appreciate the opportunity to comment on the Proposed Accounting Standards Update, *Codification Improvements – Financial Instruments* (the “proposal” or the “Proposed ASU”). We commend the Board for continuing to assist stakeholders in implementing its standards by identifying areas that require clarification and correction. Provided below, please find our response to the question(s) posed in the Proposed ASU that are most relevant to Assured Guaranty.

Issue 1A: Accrued Interest

Questions:

- 1. Will the amendments in this proposed Update to (a) measure expected credit losses on accrued interest separately from other components of amortized cost basis, (b) make an accounting policy election to present accrued interest amounts separately from the related loan balance, and (c) elect a practical expedient to separately disclose the total amount of accrued interest included in amortized cost basis as a single balance to meet certain disclosure requirements simplify and reduce operational concerns when implementing the guidance in Update 2016-13 related to accrued interest? If not, please explain why you disagree and what changes should be made instead.*
- 2. Do you support the separate accounting policy elections that would allow an entity to choose to (a) write off accrued interest amounts by either reversing interest income or adjusting the allowance for credit losses and (b) elect not to measure an allowance for credit losses on accrued interest if the entity writes off uncollectible accrued interest amounts in a timely manner? If not, please explain why you disagree and what changes should be made instead.*
- 3. If you agree with the policy election not to measure an allowance for credit losses on accrued interest if the entity reverses or writes off uncollectible accrued interest amounts in a timely manner, what period would you consider to be timely?*

Company Response:

The proposed amendments relating to Issue 1A: *Accrued Interest*, appear to focus only on those financial assets that are measured at amortized cost (e.g., loan receivables) under the scope of ASC 326-20. We believe the underlying concern, raised by Issue 1A, also applies to AFS debt securities and encourage the FASB to consider similar amendments for the guidance in ASC 326-30.

The guidance in ASC 326-30-35 requires entities to quantify credit losses on AFS debt securities by comparing the present value of cash flows (both principal and interest) expected to be collected against the amortized cost basis of the security. It is Assured Guaranty's understanding that any potential interest shortfall is inherently being captured in that measurement process. However for presentation purposes, ASC 326-30-35 only indicates that an entity shall record a credit loss on AFS debt securities through an allowance for credit losses, and that subsequent changes in the allowance shall be recorded in the period of the change as credit loss expense (or reversal of credit loss expense). In other words, the guidance does not specify whether a portion of the aforementioned allowance (and related credit loss expense) should be presented separately, to offset an AFS debt security's accrued interest receivable (and income). As a result, Assured Guaranty believes that if it were to record a credit loss under ASC 326-30, Assured's accrued interest receivable (included within Other Assets) and accrued interest income (Net Investment Income) balances would be overstated within the Company's balance sheet and income statement, respectively, as they would not reflect the impact of credit losses.

Assured Guaranty recommends that the FASB adopt amendments similar to those proposed amendments related to Issue 1A, but tailored to the AFS debt security impairment model. Specifically Assured Guaranty recommends that the FASB permit entities to elect to separately present (on the

balance sheet or within another balance sheet line item) the entire accrued interest receivable balance, net of the allowance for credit losses (if any). Assured Guaranty also recommends that the FASB permit this separate presentation on the income statement as well, since this appears to not be addressed in the proposal. In addition Assured Guaranty supports the FASB's proposal to permit entities to elect to write-off accrued interest amounts by either reversing interest income or adjusting the allowance for credit losses. If applied to the AFS debt security impairment model, these changes would allow Assured Guaranty to avoid the gross-up issue described in the previous paragraph.

If the FASB supports these presentation-related changes, Assured Guaranty encourages the FASB to provide entities with guidance with respect to measuring/quantifying the portion of credit losses specific to accrued interest. The Company believes that without such guidance, diversity in practice could develop. However if the Board decides not to address this measurement issue, the Company would support allowing for flexibility in quantifying credit losses on accrued interest pertaining to AFS debt securities. Lastly, the Company supports permitting entities to elect not to measure an allowance for credit losses on an AFS debt security's accrued interest, if the entity writes off uncollectible accrued interest amounts in a timely manner. In response to the FASB's question, Assured Guaranty believes a "timely manner" should not be defined. Instead of creating a bright-line test, an accounting policy election should be adopted upon implementation (or acquisition of a new security) and applied consistently with appropriate disclosure.

In summary, Assured Guaranty appreciates the FASB's efforts to simplify and reduce the operational concerns of implementing its new standard. The Company continues to encourage the Board to provide additional guidance, clarifying the Board's positions on the balance sheet and income statement geography related to other types of financial assets within scope of ASU 2016-13.

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 Robert Bailenson at (212) 261 -5511, Bill Findlay at (212) 261-5508 or Charbel Ayoub at (212) 261-5517.