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October 3, 2011

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

Via email to director@fasb.org

Reference: File Reference No. EITF –100E, Exposure Draft, Property Plant, and Equipment (Topic 360) Derecognition of in Substance Real Estate – a Scope Clarification.

Dear Technical Director:

Freddie Mac appreciates the opportunity to comment on the Financial Accounting Standard Board Emerging Issues Task Force ("EITF") Exposure Draft of a proposed Accounting Standards Update ("ASU"), *Property, Plant, and Equipment (Topic 360) Derecognition of in Substance Real Estate – a Scope Clarification.* (the "proposed Update").

Freddie Mac was chartered by Congress in 1970 to increase the availability of funds for home ownership by developing and maintaining a secondary market for residential mortgages. We participate in the secondary mortgage market principally by providing our credit guarantee on the mortgage-related securities we issue, and investing in mortgages and mortgage-related securities. As of June 30, 2011, our total assets were approximately \$2.2 trillion, which is comprised primarily of mortgage loans and mortgage-related investment securities.

Freddie Mac owns many nonrecourse mortgage loans in our Multifamily division that are similar in nature to those described in the proposed Update. Therefore, our role is that of the "lender" portrayed in the examples contained in the proposed Update. Many of the borrowers under these nonrecourse mortgage loans meet the definition of a variable interest entity set forth in Subtopic 810-10 *Consolidation (Overall)*. Therefore, we assess on a continuous basis whether we have a controlling financial interest in (and should therefore consolidate) any such borrowers consistent with the framework contained within Subtopic 810-10.

We appreciate the EITF's efforts to solicit feedback from stakeholders on the proposal to clarify that a parent of an in substance real estate subsidiary that ceases to have a controlling financial interest (as described in Subtopic 810-10) in that subsidiary due to a default on the subsidiary's nonrecourse debt, would be required to apply the guidance in Subtopic 360-20 *Property, Plant and, Equipment (Real Estate Sales)* to determine whether to derecognize the assets and the liabilities of the in substance real estate subsidiary. However, we are concerned that the

Freddie Mac Page 1 File Reference No. EITF-100E guidance contained in the proposed Update, as currently written, may not lead to the enhanced financial clarity that is the EITF's objective. We believe this is due to the lack of symmetry amongst the accounting models followed by the various parties involved with in substance real estate entities.

As noted previously in this letter, many of these borrower entities meet the definition of a variable interest entity as defined in Subtopic 810-10. One reasonable interpretation of the guidance contained in the proposed Update is that it would not impact the consolidation analysis of any other party involved with an in substance real estate entity aside from its parent (specifically, the proposed Update is silent as to its applicability to the lender). Under this interpretation, the parent of an in substance real estate entity would apply the derecognition guidance contained in the proposed Update, while the lender and all other parties involved with this entity would look to the consolidation model in Subtopic 810-10. Due to this application of different accounting models by different parties, there would be instances in which the real estate asset held by the in substance real estate subsidiary would be reflected on the financial statements of more than one entity at the same time.

Freddie Mac does not have a preference between the derecognition model set forth in the proposed Update and the consolidation model set forth in Subtopic 810-10. Our overriding preference is for symmetry and reciprocal accounting amongst the various parties involved with an in substance real estate subsidiary such that the real estate asset would only be recognized in one such party's financial statements at any given time.

Included in the Appendix to this letter are Freddie Mac's responses to each of the individual questions posed by the EITF in the proposed Update.

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The views expressed in this comment letter are solely those of Freddie Mac, and do not purport to represent the views of the Federal Housing Finance Agency, as Conservator.

Freddie Mac appreciates the opportunity to provide our comments on the proposed Update. If you have any questions about our comments, please contact Timothy Kviz (703-714-3800).

Sincerely,

Timothy Kviz

Vice President – Accounting Policy

Timothy King

cc: Mr. Robert D. Mailloux, Senior Vice President - Corporate Controller and Principal Accounting Officer

Mr. Nicholas Satriano, Chief Accountant, Federal Housing Finance Agency

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Appendix

This Appendix includes our responses and comments to the specific questions that were raised by the EITF in the proposed Update.

Question 1: Do you agree that the scope of this proposed Update should be limited to a reporting entity's loss of control (as described in Subtopic 810-10) of a subsidiary that is in substance real estate when that loss of control is a result of the subsidiary defaulting on its nonrecourse debt? If not, what other situations have arisen in practice that the Task Force should consider?

Response: We agree with the scope of the proposed Update insofar as the fact pattern being described would benefit from clarification. However, the current wording of the proposed Update only explicitly scopes in the parent of the in substance real estate subsidiary and is silent as to whether the guidance would apply to the lender or any other party involved with the in substance real estate entity. As many in substance real estate entities meet the definition of a variable interest entity, if the parent were to apply the guidance in the proposed Update and the lender were to apply the existing guidance in Subtopic 810-10, there would be situations in which both parties would reflect the real estate asset in their consolidated financial statements.

Statement 167 (codified within Subtopic 810-10) notes that "only one reporting entity, if any, is expected to be identified as the primary beneficiary of a variable interest entity." In the context of that guidance, that statement is analogous to an assertion that the same asset should not be reflected in the financial statements of two separate, unrelated entities at the same time (i.e., the accounting for multiple reporting entities involved with the same variable interest entity should be symmetric). Therefore, if the EITF believes the framework set forth in the proposed Update is preferable to that in Subtopic 810-10 for all parties involved with an in substance real estate subsidiary, then a broader amendment to the guidance in Subtopic 810-10 than is contained in the proposed Update may be necessary to extend this notion of symmetric accounting.

Question 2: Do you agree that a reporting entity that ceases to have a controlling financial interest (as described in Subtopic 810-10) in a subsidiary that is in substance real estate because of a default by the subsidiary on its nonrecourse debt should apply the guidance in Subtopic 360-20 to determine whether it should derecognize the assets (including real estate) and liabilities (including the related nonrecourse debt) of the subsidiary?

Response: We believe the guidance for both the parent and the lender in the examples set forth in the proposed Update should be symmetrical. That is, both parties should look to the same guidance in determining whether to recognize or derecognize (as the case may be) the real estate asset and associated nonrecourse debt. Whether that guidance is the framework contained in the proposed Update or the framework contained in Subtopic 810-10 is not as important as ensuring the framework is the same for both parties.

Question 3: Should additional guidance on applying the guidance in Subtopic 360-20 to transactions within the scope of this proposed Update be provided? If yes, under what circumstances?

Response: No; if the proposed Update is issued as currently written, we believe the examples contained therein provide ample implementation guidance.

Question 4: Do you agree that the amendments in this proposed Update should be applied prospectively? If not, why not?

Response: Yes; prospective application would ease the implementation burden – especially for companies involved with numerous in substance real estate entities.

Question 5: Should an entity be permitted to early adopt the amendments in this proposed Update?

Response: We would prefer a single adoption date across reporting entities to ensure comparability if the amendments contained in the proposed Update are to be applied prospectively.

Question 6: How much time would be necessary for you to efficiently implement the provisions of this proposed Update?

Response: We believe we could efficiently implement and adopt the guidance contained in the proposed Update, as currently written, in approximately one fiscal quarter (three months).