



December 19, 2012

Ms. Susan Cosper 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. 2012-250, Proposed Accounting Standards Update, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities

Dear Ms. Cosper:

Freddie Mac and Fannie Mae (hereinafter collectively referred to as the "GSEs") appreciate the opportunity to comment on the Exposure Draft for the proposed Accounting Standards Update ("ASU") of Topic 210, *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities* (the "proposed Update").

The GSEs were chartered by Congress to increase the availability of funds for home ownership by developing and maintaining a secondary market for residential mortgages. The GSEs participate in the secondary mortgage market principally by providing our credit guarantee on the mortgage-related securities we issue, which are backed by mortgage loans originated by our mortgage sellers/servicers.

Derivatives are an important part of each GSE's risk management strategy. Each GSE engages in significant derivative activity and primarily use derivatives, such as interestrate swaps, futures, and option-based derivatives, to manage the interest-rate and prepayment risks inherent in its mortgage portfolio. Each GSE also routinely enters into forward commitments to purchase or sell mortgages or mortgage-related securities that are accounted for as derivatives. As of September 30, 2012, the notional balances of Freddie Mac's and Fannie Mae's derivatives portfolio were approximately \$754 billion and \$865 billion, respectively.

Freddie Mac and Fannie Mae Page 1 File Reference No. 2012-250 The GSEs support the Board's efforts to provide guidance that clarifies the scope of ASU 2011-11, *Disclosures about Offsetting Assets and Liabilities*. While we agree that the proposed Update provides additional clarity on the scope of the instruments subject to the new disclosure requirements, we believe that further clarification should be provided in order to drive consistent application and provide the most meaningful information to users of each GSE's financial statements.

Along with the GSEs responses to the individual questions posed by the Board in the proposed Update, Appendix A contains our observations related to the need for further clarification of the scope of the proposed Update.

\* \* \* \* \* \* \*

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

The GSEs appreciate the opportunity to comment on the proposed Update. If you have any questions about our comments, please contact Timothy Kviz at Freddie Mac at (703-714-3800) or Kirk Silva at Fannie Mae at (202-752-3777).

Sincerely,

Timothy Kviz Freddie Mac

Vice President – Accounting Policy

Kirk Silva Fannie Mae

Vice President – Accounting Policy

cc: Mr. Ross J. Kari, Freddie Mac Executive Vice President - Chief Financial Officer Ms. Susan McFarland, Fannie Mae Executive Vice President and Chief Financial Officer

Mr. Robert D. Mailloux, Freddie Mac Senior Vice President - Corporate

Controller and Principal Accounting Officer

Mr. Greg Fink, Fannie Mae Senior Vice President and Controller

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

## Appendix A

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

Question 1: The proposed amendments would require an entity to provide the disclosures required by Section 210-20-50 for derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to an enforceable master netting arrangement or similar agreements. Do you believe that there are other instruments that should be included in the proposed scope that would provide useful information to users of financial statements as it relates to reconciling differences as a result of offsetting between financial statements prepared in accordance with U.S. GAAP and those financial statements prepared in accordance with IFRS?

**Response:** The GSEs do not believe that there are other instruments that should be included in the proposed scope. However, as noted in our answer to the question below, we believe that additional clarification is warranted.

Question 2: Do you foresee any significant operability or auditing concerns or constraints in implementing the revised scope of the disclosures based on the proposed amendments in Question 1?

**Response:** Yes. The GSEs have several concerns related to the scope of the disclosures.

## Recognized Derivative Instruments:

The GSEs believe that the scope of the proposed Update is still sufficiently broad that it would be beneficial for the Board to provide further clarification, specifically related to "recognized derivative instruments...that are subject to an enforceable master netting arrangement or similar agreement." For example, we note that certain contracts, such as forward commitments to purchase or sell mortgages or mortgage-related securities that do not qualify for the regular-way trade scope exception in Section 815-10-15, are recognized derivative instruments and may also be subject to an agreement that is similar to a master netting arrangement, and therefore would be within the scope of the proposed Update. However, we also note that such contracts are similar to the instruments that have been specifically excluded from the scope of the proposed Update (that is, trade receivables, trade payables, and unsettled regular-way trades), in that the netting arrangements for such instruments are not seen as a primary source of credit mitigation. Moreover, disclosing the net amount of such instruments would not facilitate comparison of the amounts recorded under U.S. GAAP and those recorded under IFRS, as such amounts are typically reported on a gross basis.

Further, the GSEs have identified two other areas of concern related to the term "recognized derivative instruments." First, we note that embedded derivatives meet the definition of "derivative instruments" in the Master Glossary, and therefore would be scoped in to the requirements of the proposed Update if the host contract contains a provision that is similar to a master netting arrangement. We believe the Board should provide further clarification regarding the application of the proposed Update to embedded derivatives. Second, we note that the definition of "derivative instruments" in the Master Glossary excludes the scope exceptions defined in Section 815-10-15. We believe that this could be interpreted to mean that instruments which meet the definition of "derivative instruments" but are not accounted for as derivative instruments due to a scope exception defined within Section 815-10-15 are within the scope of the proposed Update if those instruments are subject to a master netting arrangement or similar agreement. However, we also believe that usage of the term "recognized derivative instruments" in defining the scope of the proposed Update could be interpreted to mean that those instruments (that is, instruments which meet the definition of "derivative instruments" but are not accounted for as derivative instruments due to a scope exception defined within Section 815-10-15) are not within the scope of the proposed Update because they are not *recognized* derivative instruments. We believe that these two conflicting interpretations of the meaning of the term "recognized derivative instruments" could result in diversity in practice.

During Board deliberations on this topic, it did not appear that the instruments discussed above were intended to be included within the scope of the proposed Update. Consequently, we believe that the Board should consider providing additional clarification to reduce the likelihood of diversity in practice.

## One-Sided Master Netting Arrangements:

We understand that some master netting arrangements grant an offset right to the counterparty other than the reporting entity (i.e., those in which the counterparty rather than the reporting entity has the right of offset upon default and the reporting entity lacks a mirror right), We presume that an entity that holds instruments subject to such an agreement, but that has no offsetting rights under the arrangement should not include such instruments in its tabular offsetting disclosures. The GSEs believe the treatment of this type of arrangement should be clarified in the final ASU.