

1551 Park Run Drive McLean, VA 22102-3110 Letter of Comment No: 5/ File Reference: EITF03-1 Date Received: 09/30/2004

September 29, 2004

Mr. Lawrence W. Smith Chairman of Emerging Issues Task Force Financial Accounting Standards Board 401 Merritt 7 Norwalk, CT 06856-5116

VIA E-MAIL

Reference: Proposed FASB Staff Position EITF Issue 03-1-b, Effective Date of Paragraph 16 of EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" ("FSP EITF 03-1-b")

Dear Mr. Smith:

We are writing to you about EITF Issue No. 03-1 ("EITF 03-1"), "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." Attached, for your reference, is our previous letter to you on EITF 03-1 dated August 26, 2004.

We appreciate the Board's reconsideration of the guidance provided in EITF 03-1 and the suggested delay contained in the proposed FSP EITF 03-1-b.<sup>1</sup> We support FSP EITF 03-1-b's proposed delay of the effective date for the application of EITF 03-1, although we would modify the proposal to allow comprehensive implementation efforts to be completed. Specifically, we ask that you make the delay effective for the entire measurement consensus in EITF 03-1, and that you lengthen the transition period. We also ask you to reconsider the requirement to apply SOP 03-3 to securities impaired under EITF 03-1. We elaborate on these topics and offer additional recommendations below.

I. We ask that you make the delay effective for the entire measurement consensus in EITF 03-1. We also ask you to reconsider the requirement to apply SOP 03-3 to securities impaired under EITF 03-1.

We believe the scope of the proposed delay should be extended beyond paragraph 16(a), which relates to debt securities that are impaired solely because of interest rate and/or sector spread

<sup>&</sup>lt;sup>1</sup> We plan to submit an additional comment letter related to the implementation guidance contained in the proposed FSP EITF 03-1-a before the October 29 comment deadline.

increases. Instead, we request that you delay the effective date of the entire measurement consensus contained in EITF 03-1.

This approach would be significantly easier to implement in a well-controlled manner. There are significant operational challenges associated not only with the implementation of paragraph 16(a) (debt securities that are impaired solely because of interest rate and/or sector spread increases), but also with the implementation of the other provisions of EITF 03-1's measurement consensus. Our concerns relate to –

- securities within the scope of paragraph 10, for which EITF 03-1 must be adopted in the third quarter of 2004;
- (ii) implementation of paragraph 20 in the third quarter of 2004, requiring transition to SOP 03-3 for interest income recognition subsequent to impairment recognition.

Each of these issues is addressed in more detail below.

## Paragraph 10 Securities - Equity Securities and Certain Debt Securities

The proposed FSP EITF 03-1-b does not propose a delay for securities that are subject to paragraph 10 of EITF 03-1. Therefore, the EITF 03-1 requirements for these securities must be applied in the third quarter of 2004.

EITF 03-1, paragraph 10 covers "equity securities (including cost method investments) and debt securities that can contractually be prepaid or otherwise settled in such a way that the investor would not recover substantially all of its cost (refer to paragraph 16 for all other debt securities)." For securities subject to paragraph 10 of EITF 03-1, implementation requirements are significant and will include the following -

- Make interpretations to operationalize the concept of "tainting" and implement systems to prevent and monitor instances of tainting transactions. We would be required to interpret "tainting" of paragraph 10 securities without the benefit of the proposed guidance in FSP EITF 03-1-a. Furthermore, once FSP EITF 03-1-a guidance is issued, we may need to change our previous interpretations of "tainting" of paragraph 10 securities to conform them with the new guidance;
- ➤ Transition to SOP 03-3 for interest income subsequent to impairment recognition. Specifically, companies will be required to address how SOP 03-3 requirements interact with EITF 99-20 requirements, including the methodology of amortization calculations;
- > Design systems and processes to document and control our assertion of intent and ability to hold for a reasonable period of time sufficient for a forecasted recovery; and
- > Design and implement a model to forecast fair value recovery for securities for which we have asserted our intent and ability to hold.

To allow for implementation of the EITF 03-1 measurement consensus in a well-controlled manner, we request that you delay the effective date of the entire measurement consensus contained in EITF 03-1 (including the provisions for paragraph 10 securities).

# Paragraph 20 - Changes in Interest Income Recognition Under SOP 03-3

We also note that because the proposed FSP does not delay the effective date of paragraph 20 of EITF 03-1,<sup>2</sup> it seems that companies will have to transition to SOP 03-3 in the third quarter of 2004 for interest income recognition subsequent to any impairments recognized in accordance with paragraphs 10 or 16(b)<sup>3</sup> of EITF 03-1.

We ask you to reconsider the requirement to apply SOP 03-3 to securities impaired under EITF 03-1, for the reasons we listed in our August 26 letter -

- This paragraph 20 requirement is effectively an expansion of the scope of SOP 03-3, which specifically relates only to loans and debt securities acquired with evidence of deterioration of credit quality since origination. The scope of SOP 03-3 does not address securities with credit deterioration that occurs after acquisition (as would be the case with EITF 03-1 paragraph 10 or 16(b) impairments). The scope of SOP 03-3 also does not address interest rate-driven declines in fair value.
- ➤ This paragraph 20 requirement also effectively expands the scope of SOP 03-3 by including beneficial interests, which are subject to EITF 03-1. SOP 03-3 explicitly excludes retained interests from its scope.<sup>5</sup>
- ➤ The EITF 03-1 requirement to adopt SOP 03-3 in the third quarter of 2004 effectively accelerates the required adoption date of SOP 03-3. By its terms, SOP 03-3 is not effective until fiscal years beginning after December 15, 2004.
- EITF 03-1 paragraph 20 requires application of SOP 03-3 <u>prospective</u> amortization after recognition of an impairment loss. For those companies with significant portfolios that are amortized pursuant to SFAS 91 and use the <u>retrospective</u> cumulative catch-up method as permitted under SFAS 91, it is unclear how to address the interaction between SOP 03-3 and SFAS 91.

### II. We ask that you lengthen the transition period.

Please consider a transition period of at least six months before the implementation guidance becomes effective. Per the proposed FSP EITF 03-1-a, we understand that the implementation guidance contained in FSP EITF 03-1-a would be effective "on the last reporting date for

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<sup>&</sup>lt;sup>2</sup> EITF 03-1, paragraph 20: "In periods subsequent to the recognition of an other-than-temporary impairment loss, the investor should apply the provisions of SOP 03-3 in determining the amount and timing of income recognition."

<sup>&</sup>lt;sup>3</sup> EITF 03-1, paragraph 16(b) relates to credit-related declines: "For debt securities that are not within the scope of paragraph 10, an impairment should be deemed other than temporary if...(b) it is probable that the investor will be unable to collect all amounts due according to the contractual terms of the debt security. In making the determination about collectibility, the investor should consider all information available, including evidence from rating agencies, about fair value fluctuations due to factors other than interest rates..."

<sup>&</sup>lt;sup>4</sup> SOP 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer," paragraphs 3 and B9-B10.

<sup>&</sup>lt;sup>5</sup> SOP 03-3, paragraph 3.

reporting periods ending after the final FSP is posted to the FASB website." As discussed in the FASB meeting on September 8, 2004, we understand that the effective date could be as early as December 31, 2004.

As we stated in our August 26 letter (attached), the implementation of the paragraph 16(a) requirements for interest-rate driven impairments will require significant interpretation as well as operational changes related to systems and processes. We think that a span of potentially only a few weeks to implement such a significant change would not allow for a well-controlled implementation. The short implementation period will handicap companies' abilities to implement this guidance effectively, especially in light of the competing priorities of routine year-end close efforts and efforts currently underway to complete required internal controls-related initiatives.

If you would like to discuss any of the issues raised in this letter, please feel free to call Marty Baumann at (703) 903-3940 or John Woods at (703) 382-3900. We would also be happy to meet with you at your convenience to further discuss these issues.

Sincerely,

Martin F. Baumann
Executive Vice President – Finance & Chief Financial Officer

John F. Woods Senior Vice President – Principal Accounting Officer

### **ATTACHMENT**

Freddie Mac is a stockholder-owned corporation established by Congress in 1970 to support homeownership and rental housing. Freddie Mac fulfills its mission by purchasing residential mortgages and mortgage-related securities, which it finances primarily by issuing mortgage-related securities and debt instruments in the capital markets. Over the years, Freddie Mac has made home possible for one in six homebuyers in America. For additional information about Freddie Mac, please see our Web site at www.FreddieMac.com.

<sup>&</sup>lt;sup>6</sup> FSP EITF 03-1-a, paragraph 9.



1551 Park Run Drive McLean, VA 22102-3110

August 26, 2004

Mr. Lawrence W. Smith Chairman of Emerging Issues Task Force Financial Accounting Standards Board 401 Merritt 7 Norwalk, CT 06856-5116

VIA E-MAIL

Reference: EITF 03-01

Dear Mr. Smith:

We are writing to you regarding EITF Issue No. 03-01 (EITF 03-01), "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." We wish to share our concerns about implementation issues related to adopting the measurement consensus in EITF 03-01.

Our primary concerns relate to the EITF 03-01 requirement to make an assertion about the intent and ability to hold a debt security until a forecasted recovery of fair value. We believe the requirement to make this assertion –

- (a) Contradicts existing GAAP guidance including SFAS 115 and SAB 59
- (b) Presents significant implementation issues (including questions about the practicability of forecasting fair value recovery; operational complexity related to designation of intent, ability, and forecasts; and questions regarding the interpretation and risks associated with "tainting" through subsequent sales activity)

Potential negative consequences of this EITF 03-01 guidance include –

- (a) Possible incentive for "gains trading"
- (b) Impairment loss recognition for some securities that will never experience a realized loss, with subsequent accretion of the impairment discount into interest income over time as an increased effective yield
- (c) Expanded use of the HTM category

We also have concerns about transition issues, including several questions about the interaction of this standard with SOP 03-3 and concerns about the timing of transition given the significant operational challenges of implementation such as the need to develop new systems.

We respectfully request either reconsideration of the consensus including seeking public comment on the issues that we describe more fully below, or a delay in the effective date of the EITF 03-01 measurement consensus to allow preparers and their accounting firms more time to interpret the standard.

We appreciate your consideration of the issues in this letter, and we would be happy to discuss them with you at your convenience.

## Background

Our concerns relate to investments in debt securities classified as available-for-sale (AFS) which are in an unrealized loss position due to changes in interest rates. For those securities which are under the scope of paragraph 16 of EITF 03-01, we would be required to apply the following guidance to determine whether an impairment should be deemed other-than-temporary:

"... An impairment should be deemed other than temporary if (a) the investor does not have the ability and intent to hold an investment until a forecasted recovery of fair value up to (or beyond) the cost of the investment, which in certain cases may mean until maturity... Although not presumptive, a pattern of selling investments prior to the forecasted recovery of fair value may call into question the investor's intent."

In evaluating this guidance, we have identified several issues that we wanted to share with you. These issues are related to (a) difficulties with making an assertion about "intent and ability to hold until forecasted recovery," and (b) the implications of alternatively choosing not to make that assertion. We have also identified some issues related to transition.

## Assertions about "intent and ability to hold until forecasted recovery"

Investments in debt securities may frequently be in unrealized loss positions due to changes in interest rates. The paragraph 16 guidance for determining whether interest rate-driven declines in fair value are other-than-temporary presents some practical and conceptual difficulties.

# Estimation of "forecasted recovery" for interest rate-driven declines in fair value is impracticable

We are unsure of how to make the required estimate of "forecasted recovery of fair value" for interest rate-driven declines in fair value. The guidance provided in the consensus (paragraph 15) primarily relates to forecasting recovery in cases where declines in fair value are driven by credit-related factors. The consensus does not provide guidance about forecasting recovery in cases where declines in fair value are driven by changes in interest rates. On a practical basis, estimation of "forecasted recovery" of fair value before maturity would require a forecast of the future direction and extent of interest rate changes. While a company might make an educated guess about future changes in interest rates, one would not expect to forecast the extent or timing of recovery in fair value (prior to maturity) with consistent accuracy.

Designation of "intent" at trade lot level is operationally complex and may contradict business practice

Designation of the "intent to hold until fair value recovery" poses some practical problems. First, making such a designation at the unit of account (the trade lot level) requires identification of both a forecasted recovery date and a corresponding intent to hold or sell (in reference to the

<sup>&</sup>lt;sup>7</sup> EITF 03-01, paragraph 16.

forecasted recovery date). This designation of intent (and the forecasted recovery) must be refreshed each reporting period. These requirements add significant operational complexity to the current requirement to designate the SFAS 115 intent (HTM, AFS, trading) upon purchase. Just as companies did to accommodate hedge designation under SFAS 133, companies may be required to implement processes and systems to accommodate the designation of "intent to hold" under EITF 03-01. Given the policy interpretation issues (described in this letter) plus the operational complexity of implementing an intent designation system, the transition period provided in EITF 03-01 seems inadequate.

Furthermore, designation of the "intent to hold until fair value recovery" also poses some conceptual problems. The requirement to make an accounting designation of "intent to hold" at the trade lot level may contradict how the securities are actually managed (which may be on a portfolio basis). Consider an enterprise with a business model that involves sales decisions based on economic or risk management reasons at the time of sale, independent of the accounting unrealized gain or loss of an individual trade lot at a particular period-end. This company may not be able to forecast which lots will be subsequently sold or the timing of the sales. The requirement to make such a forecast seems to contradict the requirements originally specified in SFAS 115 for the AFS category. Current guidance requires impairment loss recognition in the period a company has made a "decision to sell." Absent an affirmative "decision to sell," current GAAP does not require the forecast of amount and timing of sales for AFS securities.

#### "Intent to hold" assertions for impaired securities could encourage gains trading

The paragraph 16 assertion requirements could encourage gains trading. Companies are incented to avoid undesirable accounting consequences. That is, companies might avoid impairment loss recognition by continuing to hold securities in unrealized loss positions (with deferral in OCI), having made an assertion of the intent to hold until a forecasted recovery, and instead choose unrealized gain positions for use in subsequent sales transactions. This behavior would defeat one of the Board's original objectives in improving financial reporting related to resolving the gains trading issue.<sup>12</sup>

# The interaction of EITF 03-01 guidance with existing GAAP guidance on "other-than-temporary" impairments is unclear

In addition to the concerns outlined above, we have some concerns about how to interpret some of the EITF 03-01 guidance in light of the already-existing GAAP guidance on determining other-than-temporary impairments.

<sup>10</sup> Per EITF Topic D-44, "Recognition of Other-Than-Temporary Impairment Upon the Planned Sale of a Security Whose Cost Exceeds Fair Value," "... when an entity has decided to sell an available-for-sale security whose fair value is less than its cost basis and the entity does not expect the fair value of the security to recover prior to the expected time of sale, a write-down for other-than-temporary impairment should be recognized in earnings in the period in which the decision to sell is made."

<sup>11</sup> The SEC's Staff Accounting Bulletin No. 59 (SAB 59), "Accounting for Noncurrent Marketable Equity Securities," does not require a forecast of the amount and timing of sales for each security. SAB 59 cites intent and ability to hold until any anticipated recovery as *one* factor that may be helpful in indicating whether a decline is other-than-temporary; SAB 59 acknowledges that "there are numerous factors to be considered in such an evaluation and their relative significance will vary from case to case."

<sup>12</sup> Also, per SFAS 115, paragraph 84: SFAS 115 was expected to "help resolve the gains trading issue, not aggravate it."

<sup>&</sup>lt;sup>8</sup> Under paragraph 6 of EITF 03-01, the impairment assessment must be made each reporting period.

<sup>9</sup> Per SFAS 115, paragraph 82: The AFS category includes "debt securities that are being held for an unspecified period of time, such as those that the enterprise would consider selling to meet liquidity needs or as part of an enterprise's risk management program."

We are uncertain about the interaction between EITF 03-01 and existing other-than-temporary impairment guidance (SAB 59 and AICPA Statement on Auditing Standards No. 92, "Auditing Derivative Instruments, Hedging Activities and Investments in Securities," or SAS 92). SAB 59 and SAS 92 require consideration of all potential relevant factors (including duration and extent of decline, prospects of the issuer, and intent and ability to hold), without a predetermined weight on any particular factor, in judging whether impairments are other-than-temporary. In contrast, in EITF 03-01 the requirement to make a positive assertion of the "intent and ability to hold until forecasted recovery" takes on increased prominence. Duration and extent of the decline in fair value are considered, not as equally important factors (as is true in SAB 59 and SAS 92) but as indicators of the amount of evidence needed to support the company's forecast of recovery in fair value.<sup>13</sup>

While the requirements in EITF 03-01 involve the same key phrases used in SAB 59 and SAS 92 such as "intent and ability to hold," the relative emphasis on factors to be considered and the exercise of management judgment seems different. This distinction may seem subtle, but it can result in differences in the processes designed to identify other-than-temporary impairments. We are unclear how to resolve these differences when making other-than-temporary impairment decisions in practice.

### The interpretation and consequences of "tainting" are ambiguous

We are unsure of how to implement the paragraph 16 guidance about "a pattern of selling investments prior to the forecasted recovery of fair value." The notion of a pattern of sales that "calls into question the investor's intent" implies the concept of tainting events. We also understand that some accounting firms have taken the position that a small number of subsequent sales for which an accounting loss is recognized constitute a "tainting" of the intent assertions for future periods.

Our questions include the following.

- (a) How many instances of loss sales constitute a "pattern?" How should we interpret "although not presumptive?"
- (b) If one sells at an accounting loss *subsequent* to the "forecasted recovery" (that is, the forecasted recovery has not materialized), what are the implications?
- (c) What are the consequences of "tainting?"
- (d) How do changes in the forecast affect "tainting?"
- (e) What intervening factors (subsequent to period-end) that affect the investor's intent or forecasted recovery date are allowable without creating a "tainting" event?

We also observe that the risks associated with a potential "tainting" event might lead companies to choose <u>not</u> to make assertions about the "intent and ability to hold until forecasted recovery." This choice would lead to unattractive alternatives, which may include (a) defaulting to a modified "LOCOM" approach for all AFS securities, (b) an expansion of the use of the HTM category, or (c) expansion of the use of the trading category on a large scale, with regulatory capital implications for financial institutions. We discuss these alternatives further below.

<sup>&</sup>lt;sup>13</sup> Per paragraph 11 of EITF 03-01.

# Alternatives if companies choose <u>not</u> to make assertions about "intent and ability to hold until forecasted recovery"

As described above, a company trying to implement the paragraph 16 assertions about the "ability and intent to hold an investment until a forecasted recovery of fair value" for AFS securities may face (a) practical constraints (such as the inability to estimate forecasted recoveries or designate intent), or (b) the risk of potential "tainting" from subsequent sale activity. In response to these problems, a company might choose not to make the assertions, and instead choose from several unattractive alternatives.

## Adopt a modified "LOCOM" approach for AFS securities

If a company does not make assertions about the intent to hold until a forecasted recovery, EITF 03-01 requires recognition of impairment losses through earnings. This approach, with establishment of the fair value as a new cost basis, is effectively a modified LOCOM approach. This contradicts the stated intent of SFAS 115<sup>14</sup> and is effectively an amendment to the AFS accounting prescribed by SFAS 115.

This approach is unattractive as it will involve impairment loss recognition due to interest rate changes in the short term, for some securities which will never experience a realized loss. These unrealized losses are not truly "other-than-temporary." In addition, the modified LOCOM approach would require that an impairment loss be recognized currently in earnings and reversed over time through subsequent accretion into interest income, as an increase in the effective yield. Neither the potentially significant impairment loss recognition (on securities for which a loss will never be realized) nor the income reclassification (impairment losses versus interest income) is desirable or reflective of economic reality. Finally, the move to a modified LOCOM approach is inconsistent with the Board's stated objective of moving toward fair value accounting for financial instruments.

### Expand use of the HTM category

As an alternative to the modified LOCOM approach for AFS securities, companies might seek to expand use of the HTM category. We do not believe expanded use of HTM accounting for marketable securities is an improvement in financial reporting or consistent with the Board's stated objective of moving toward fair value accounting for financial instruments.

## Expand use of the trading category

As another alternative to the modified LOCOM approach for AFS securities, companies might seek to expand use of the trading category. A significant portion of Freddie Mac's sales and resecuritization activities are not consistent with SFAS 115's indication of the character of "trading" securities ("generally used with the objective of generating profits on short-term differences in price"). Instead of representing trading activities, Freddie Mac's retained portfolio transactions are meant to facilitate our housing mission by providing market liquidity

Per SFAS 115, paragraph 97: SFAS 115 was meant to "eliminate the unevenhandedness of LOCOM, which recognizes the net diminution in value of securities but not the net appreciation in value."
 SFAS 115, paragraph 12.

for mortgage-backed securities in a manner that is consistent with our disciplined approach towards risk management.

Expanded use of the trading category would create trading-like earnings volatility related to non-trading assets (without the ability to mark debt to fair value through earnings), and could have significant regulatory capital implications. The Board acknowledged this problem in its SFAS 115 deliberations, and resolved the issue by creating the AFS category. The "modified LOCOM" approach for AFS securities, a potential consequence of EITF 03-01, effectively nullifies the Board's prior resolution of this issue.

One approach might be to reconsider the EITF 03-01 guidance and make its effective date coincident with the Board's conclusions on the Fair Value Option project. Expanded use of the trading category would present fewer concerns if coupled with the ability to recognize changes in the fair value of liabilities through earnings.

#### **Transition issues**

We have also identified several transition issues.

Adoption of SOP 03-3 guidance for income recognition subsequent to impairment In paragraph 20, EITF 03-01 mandates application of SOP 03-3 for interest income recognition subsequent to recognition of an impairment loss. For securities that are not accounted for under EITF 99-20, this requirement would result in a change from SFAS 91 retrospective effective yield amortization to SOP 03-3 prospective effective yield amortization (after recognition of an impairment loss). We have several questions.

- (a) Did the EITF and Board intend to shift securities away from SFAS 91 accounting upon an impairment triggered solely by interest rate changes? Does the mixed model (some securities on SFAS 91, some securities on SOP 03-3) for similar instruments result in improved financial reporting?
- (b) Did the EITF and Board intend to add to the scope of SOP 03-3 by adding interest rate-driven impairments? As stated in SOP 03-3, the scope of that standard includes loans and securities acquired with evidence of deterioration of *credit quality* since origination. Although SOP 03-3 acknowledges that changes in interest rates affect fair value, interest rate-driven changes are not explicitly included in the SOP 03-3 scope. Instead, SOP 03-3 states that SFAS 91 and related EITF consensuses "address accounting for differences in prepayments and interest rates that are not attributable to credit quality."

<sup>&</sup>lt;sup>16</sup> Per SFAS 115, paragraphs 93 – 94: "Some enterprises, particularly financial institutions, that consider both their investments in securities and their liabilities in managing interest rate risk contend that reporting unrealized holding gains and losses on only the investments, and not related liabilities, in earnings has the potential for significant volatility that is unrepresentative of both the way they manage their business and the impact of economic events on the overall enterprise. Based principally on those concerns, the Board decided that unrealized holding gains and losses on debt and equity securities that are available for sale but that are not actively managed in a trading account should be reported outside earnings... That reporting would alleviate the potential for volatility in reported earnings resulting from a requirement to value some assets at fair value without at least permitting fair-value-based accounting for related liabilities. It would also mitigate concerns about reporting the fluctuation in fair value of long-term investments in earnings." <sup>17</sup> SOP 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer," paragraph 2.

- (c) Did the EITF and Board intend to add retained interests to the scope of SOP 03-3? SOP 03-3 explicitly excludes retained interests from its scope. <sup>18</sup>
- (d) Did the EITF and Board intend to accelerate the effective date of SOP 03-3? Implementation of EITF 03-01 for reporting periods beginning after June 15, 2004 (as required by paragraph 23 of EITF 03-01) would effectively require early adoption of SOP 03-3 (which by its terms is not effective until fiscal years beginning after December 15, 2004).

<u>Timing of paragraph 16 assertions about "intent and ability to hold until forecasted recovery"</u>
The transition provisions of EITF 03-01 are unclear about the date as of which a company must make its first paragraph 16 assertions for each impaired security and when the transaction history that would establish a "pattern" commences.

### One-time transfer to trading category

We understand that, according to SFAS 115, transfers to and from the trading category should be rare. Does adoption of EITF 03-01 constitute an event that would justify a transfer to trading?

### Operational issues

As discussed previously, we anticipate there may be significant operational complexities to implement the EITF 03-01 measurement consensus. Companies may be required to implement processes and systems to designate intent and forecasts and to convert to SOP 03-3.

We think that these operational challenges merit a longer period before transition.

## Our request

Given the significance of the issues we have articulated, we respectfully request either reconsideration of the consensus including seeking public comment on these issues, or a delay in the effective date of the EITF 03-01 measurement consensus to allow preparers and their accounting firms more time to interpret the standard. We would also request that you consider coordinating this significant change with the timing of the Board's project on the "Fair Value Option," which would make the expanded use of the trading category more feasible.

Thank you for your consideration of these issues. We are available at your convenience to discuss these issues in detail. If you would like to contact us to discuss these issues directly, please feel free to call Marty Baumann at (703) 903-3940 or John Woods at (571) 382-3900.

Sincerely,

Martin F. Baumann

Executive Vice President - Finance & Chief Financial Officer

John F. Woods Senior Vice President – Principal Accounting Officer

<sup>&</sup>lt;sup>18</sup> SOP 03-3, paragraph 3.

Freddie Mac is a stockholder-owned corporation established by Congress in 1970 to support homeownership and rental housing. Freddie Mac fulfills its mission by purchasing residential mortgages and mortgage-related securities, which it finances primarily by issuing mortgage-related securities and debt instruments in the capital markets. Over the years, Freddie Mac has made home possible for one in six homebuyers in America. For additional information about Freddie Mac, please see our Web site at www.FreddieMac.com.