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1710-100
Comment Letter No. 74
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October 12, 2009

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

Via email to director@fasb.org

File Reference No. 1710-100: Proposed Accounting Standards Update of Topic 820 Fair Value Measurements and Disclosures, *Improving Disclosures about Fair Value Measurements*

Dear Mr. Golden:

Freddie Mac appreciates the opportunity to comment on the proposed Accounting Standards Update of Topic 820 Fair Value Measurements and Disclosures, *Improving Disclosures about Fair Value Measurements* (the “Exposure Draft” or “proposed ASU”).

Freddie Mac is a publicly held company chartered by Congress in 1970 with a public mission to stabilize the nation’s residential mortgage market and expand opportunities for home ownership and affordable rental housing. We hold a significant amount of financial assets and liabilities that would be impacted by the proposed ASU. As of June 30, 2009, we have \$683 billion assets and \$8 billion liabilities measured at fair value on a recurring or nonrecurring basis, 98% of which are considered Level 2 or Level 3 fair value measurements. On January 1, 2010, with the adoption of FASB Statement No. 167, *Amendments to FASB Interpretation No. 46(R)* (“Statement 167”), the assets and liabilities we measure at fair value could increase significantly.

We support the Board’s efforts to improve U.S. generally accepted accounting principles’ disclosure requirements related to the Fair Value Measurements and Disclosures – Overall Subtopic (Subtopic 820-10) of the *FASB Accounting Standards CodificationTM*, originally issued as FASB Statement No. 157, *Fair Value Measurements*, primarily as a result of the recommendation of a number of constituents, as we are both preparers and users of financial statements. However, we do not agree with the stated objective to provide financial statement users with the effect(s) of reasonably possible alternative inputs used in Level 3 fair value measurements, as it will introduce the possibility of second-guessing audited fair values by financial statement users, and we believe the operational aspect to be extremely burdensome for minimal, if any, improvement to disclosure quality. Furthermore, the level of disaggregation and

amount of detail provided for our fair value measurements that would be required under this proposal are at a level inconsistent with how management evaluates our financial results. Lastly, some of the proposed qualitative disclosures discussing the specific details regarding collateral and credit enhancements would be significant and likely far too detailed to be meaningful.

Below are our responses to the individual questions raised in the Exposure Draft, as well as additional observations.

Issue 1: With respect to the disclosure of the effect of changes in reasonably possible, significant, alternative inputs for Level 3 fair value measurements for each class of assets and liabilities (sometimes also referred to as sensitivity disclosures), the Board is seeking input from:

- 1. Financial statement preparers about their operationality and costs***
- 2. IFRS financial statement preparers about the approach they plan to use to comply with a similar disclosure requirement in IFRS 7***
- 3. Financial statements users about their usefulness – more specifically, a discussion of how they would benefit from, and use, such disclosures.***

Operational Concerns

We have over 3,200 CUSIPs in our non-agency mortgage-backed debt securities portfolio that need to be measured at fair value each period. We classify these non-agency mortgage-backed debt securities in Level 3 of the Fair Value Hierarchy, as defined in ASC 820-10-35-15A, as there are significant unobservable inputs to the fair value measurement. In fact, these non-agency mortgage-backed securities represent the vast majority of our assets and liabilities included in Level 3 of the Fair Value Hierarchy.

Due to the large volume of securities that we own, we utilize multiple independent pricing services to obtain fair values. These independent pricing services generally provide prices based on observed transactions in the marketplace for similar securities extrapolated to meet the specific characteristics of our securities. We employ a rigorous internal review function to evaluate the prices received before we ultimately conclude that the fair value is reasonable and in accordance with the requirements of ASC 820-10.

More specifically, our valuation technique for over two-thirds of our non-agency mortgage debt securities involves us sending individual CUSIPs to four independent pricing services. Upon receipt of this pricing information, we assess the fair values in the context of a range analysis that identifies any significant outliers, and we analyze the outliers through communications with the external pricing providers. Ultimately, we use the median of all the reasonable fair values provided. We also subject this fair value to verification procedures by requesting dealer quotes from two or three dealers for a sample of these securities. In addition, we perform a series of analytical reviews including trend and relative value analysis to validate the reasonableness of the fair values provided by the pricing services. Additionally, we hold discussions with pricing

services and dealers to ensure that we understand and approve of their overall valuation techniques.

As a result of the proposed requirement to present reasonably possible alternative changes in one or more of the significant inputs for our Level 3 assets and liabilities, we are unsure how we could reliably determine reasonably possible alternative inputs when much of the pricing is extrapolated using observed trades for similar assets. In this case the pricing is not based on discounted cash flow models that could present alternative values simply by increasing or decreasing a significant input such as the discount rate, prepayment speed, or credit loss assumptions. To comply with requirements of the proposed ASU, we would need to have our independent pricing services provide us with additional prices for reasonably possible scenarios for each asset and liability that we categorize in Level 3. Since each pricing service may use different techniques to estimate fair value on these securities, there may be inconsistency as to which inputs are significant. We believe it is possible that the various independent pricing services and dealers we use to derive our fair value measurements could derive significantly different results for their view of a reasonably possible scenario. We are not certain how we would reconcile or consume the output received from external pricing sources. Reconciliation of the various values given the difference in views about reasonably possible scenario would be unwieldy.

We believe that the guidance for the sensitivity analysis contained in ASU 820-10-50-2f is not clear. This guidance requires disclosure of significant increases and decreases in fair value from changing one or more of the significant unobservable inputs to reasonably possible alternative inputs. It is not clear whether the reference to inputs is for inputs in isolation, or taken together as a whole. For example, with respect to a mortgage-backed debt security, if the assumption for prepayment speeds is changed, there will be an impact on the credit loss assumptions as well. It is not clear whether the sensitivity analysis is calling for disclosure of the impact of the change in prepayment speeds in isolation, or whether the change in fair value should contemplate all other changes in fair value that result from a change in the prepayment speed assumption. We believe it is more meaningful to consider overall changes in fair value, rather than changes isolated to a single assumption; however, we believe the guidance could be interpreted either way. Further, there may be different views on the appropriate time horizon to use to develop the reasonably possible scenarios, which may impede comparability between entities and reduce the value of the disclosure.

Additionally, the guidance refers to increases and decreases in fair value from a reasonably possible alternative, and the example provided illustrated two scenarios – one an increase and the other a decrease. This seems to imply that the guidance calls for sensitivity of the fair value to an increasing scenario and a decreasing scenario; however, given the market conditions at any point in time, the reasonably possible scenario might be one directional. Further, the example implies that two scenarios should be disclosed; however, at any given point in time, the number of reasonably possible scenarios could vary significantly from two, based on the then current market conditions.

If the sensitivity analysis is retained, we believe that the guidance in ASU 820-10-50-2f should be revised to clarify whether sensitivity analysis is with respect to the fair value measurement in its entirety, and whether there is a specific number of scenarios that should be disclosed. Absent this guidance, we believe it may be easy to second guess whether the disclosure requirements were met, as there may be many different views on the number of reasonably possible scenarios that exist and that should be disclosed.

In addition to the proposed quantitative disclosures discussed above, the current proposal includes some specific qualitative disclosures related to valuation techniques and inputs. Specifically, ASC 820-10-55-22A(c.) recommends the disclosure of the nature and type of collateral, guarantees or other credit enhancements including information related to the year of issuance, geographical concentration, and information about the credit ratings of securities. These items focus on characteristics that may impact the credit performance of an asset; however, the credit characteristics are only one aspect of a fair value measurement. While we do provide some of this information in the Management Discussion and Analysis section of the Form 10-Q and Form 10-K in the context of disclosing the credit characteristics of our portfolio, it is not segregated between the levels of the Fair Value Hierarchy, and these disclosures do not encompass all assets categorized in Levels 2 and 3. We question the usefulness of this information to investors in the context of valuation and how it would inform an investor as to the valuation process or to the valuations themselves.

A final observation we have regarding the operationality of the sensitivity analysis pertains to derivatives. There is diversity in practice with respect to the measurement of fair value for derivatives subject to master netting arrangements. Specifically, some entities net all derivative positions, and if the net position is an asset, the fair value includes a credit value adjustment (“CVA”) for the derivative counterparty, and if the net position is a liability, the entities own credit risk is used to derive the CVA (i.e., a top down approach). Other entities segregate derivatives subject to master netting arrangements into those in asset positions and those in liability positions. The fair value measurement for derivatives in asset positions include a CVA for the credit risk attributable to the derivative counterparty, and the fair value measurement for the derivative liabilities incorporates the entities own credit risk in the CVA (i.e., a bottom-up approach). The requirements of ASC 820-10-50-3 require that the fair value of derivatives be presented on a gross basis. If an entity were applying a top down approach in applying the CVA to the fair value measurement of derivatives subject to a master netting arrangement, the disclosure of the positions on a gross basis would not be fair value of the gross position as defined in ASC 820-10. We believe this disclosure requirement effectively requires a bottom-up approach to applying a CVA to derivatives subject to a master netting arrangement, which is a change in practice, and is not entirely clear that this was the intent of the proposed ASU. Further, we do not believe this change will be operational for some entities, particularly within the timeframe allotted to the effective date of the proposed ASU.

Concerns about Use of the Output

Even if we could overcome our operational constraints, we have concerns regarding the usefulness of the information to financial statement readers. Based on our due diligence and

related internal controls, we have provided our best estimate of what we could receive for our assets or to transfer our liabilities for in an orderly transaction with a market participant. We believe the presentation of alternative amounts undermines the Balance Sheet presentation of our best estimate of fair value amounts. The current proposal would provide a financial statement reader with a range of fair values from which to choose, instead of one value determined based on the principles of ASC 820-10.

Additionally, the level of disaggregation required by the proposed ASU is not consistent with the way we view or manage the business. We manage risks inherent in our portfolio in aggregate. For the assets and liabilities we manage based on fair value, we do not make any distinction between the levels of the Fair Value Hierarchy. The levels of the Fair Value Hierarchy are only important relative to required financial statement disclosures. Given that the disclosures required by the proposed ASU are not consistent with how we view or manage our business, it is not clear to us how providing disaggregated information about a portion of our portfolio would be useful to a financial statement user.

If the objective of financial reporting is to provide financial information that is useful (i.e., relevant and representationally faithful), we do not understand how this proposed ASU meets this objective. It is not clear how a sensitivity analysis of reasonably possible fair values for assets and liabilities measured at fair value and categorized as Level 3 in the Fair Value Hierarchy would provide predictive or confirmatory value. Further, we do not believe that such information will depict the substance of an economic phenomenon completely, neutrally, and without material error – thus not providing faithful representation. We believe the proposal to provide a financial statement user with a range of fair values from which to choose could have adverse effects when actual results do not come to pass as predicted in fair value estimates. This could subject companies to unnecessary litigation risk, as the potential range of reasonably possible outcomes is enormous. In addition, one cannot disclose in a meaningful manner every reasonably possible scenario that would be introduced by this proposal.

Issue 2: With respect to the reconciliation (sometimes referred to as a roll forward) of fair values using significant unobservable inputs (Level 3), the amendments in this proposed Update would require separate disclosure of purchases, sales, issuances, and settlements during the reporting period. Is this proposed requirement operational? If not, why?

Yes, we believe this proposed requirement is operational. We currently collect this information on a gross basis to prepare our current disclosures, so the proposed disclosure should not present a significant challenge.

Issue 3: Is the proposed effective date operational? In particular:

- 1. Will entities be able to provide information about the effect of reasonably possible alternative inputs for Level 3 fair value measurements for interim reporting periods ending after March 15, 2010?***
- 2. Are there any reasons why the Board should provide a different effective date for nonpublic entities?***

No, the proposed effective date is not operational for the proposed sensitivity disclosure requirements. Our adoption of Statement 167 will be effective during the same reporting period as the proposed ASU. On adoption of Statement 167, we will consolidate approximately 275,000 variable interest entities (i.e., securitization trusts) that contain approximately 13 million mortgage loans, with an unpaid principal balance of approximately \$1.8 trillion. Some of these loans may require fair value measurement disclosures subject to the requirements of the proposed ASU. Because of the significant efforts that will be required to implement Statement 167, we do not believe we will have adequate resources to adopt the proposed ASU by the effective date. Further, if this proposed ASU were finalized, it would likely take us more than six months to build the modeling capabilities to provide rational, supportable, auditable, and useful “alternative fair values” in a controlled manner.

If the sensitivity requirement were removed from the proposed ASU, then the effective date of the remaining proposal would be operational for interim periods ending after June 15, 2010.

* * * * *

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.

Freddie Mac appreciates the opportunity to provide our comments on the proposed Statement. If you have any questions about our comments, please contact Denny Fox (703-714-3160) or James Brandt (703-714-3305).

Sincerely,

A handwritten signature in red ink that reads "James F. Brandt". The signature is written in a cursive style with a large, looping initial "J".

James F. Brandt
Vice President – Accounting Policy

cc: Mr. Charles E. Haldeman, Jr., Chief Executive Officer
Mr. Ross J. Kari, Executive Vice President and Chief Financial Officer
Mr. Denny R. Fox, Acting Principal Accounting Officer & Vice President, Accounting Policy and External Reporting
Ms. Wanda DeLeo, Federal Housing Finance Agency