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September 20, 2010

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

Via email to: director@fasb.org

Re: File Reference No. 1840-100: *Proposed Accounting Standards Update: Contingencies (Topic 450) – Disclosure of Certain Loss Contingencies*

Dear Mr. Golden:

Federal National Mortgage Association¹ (Fannie Mae) appreciates the opportunity to comment on the Financial Accounting Standards Board's ("FASB's") File Reference No. 1840-100: *Proposed Accounting Standards Update: Contingencies (Topic 450) – Disclosure of Certain Loss Contingencies* ("the proposed ASU"). We appreciate the Board's response to the concerns of constituents and believe the current proposed accounting update addresses many of the concerns related to the June 2008 Exposure Draft. However, we still have the following concerns:

- The proposed requirements to disclose the possible range of loss and amount accrued, if any, for such losses may require companies to disclose information that is prejudicial and privileged in nature.
- The proposed ASU does not include the scope exception for asset impairments and guarantees as was contemplated in the original exposure draft. We recommend that the Board retain these scope exceptions, as there are already substantial disclosure requirements for asset impairments and guarantees. As proposed, the ASU may result in redundancy or create inconsistency between disclosures.

¹ Fannie Mae is a government-sponsored enterprise that was chartered by Congress in 1938 to support liquidity, stability and affordability in the secondary mortgage market. Fannie Mae became a stockholder-owned and privately managed corporation by legislation enacted by Congress in 1968. Since September 6, 2008, Fannie Mae has been under conservatorship, with the Federal Housing Finance Agency ("FHFA") acting as conservator. At June 30, 2010, we had total assets of \$3.3 trillion of which \$2.9 trillion is made up of our loan portfolio and total liabilities of \$3.3 trillion of which \$3.0 trillion consist of long-term debt.

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Disclosure of Information that is Prejudicial and Privileged

In response to question 3 in the proposed ASU, we believe an explicit exemption from disclosing prejudicial and privileged information is necessary, particularly for litigation contingencies. We believe the proposed requirement to disclose the entity's estimated loss or potential range of loss and the amount accrued, if any, for those losses could put attorney-client privileged material and work product at risk of litigation disclosure and reveal a company's litigation strategy. For example, if the matter being litigated is unique and easily identifiable, the proposed disclosure could provide a road map for opposing counsel. Such situations could result in unnecessary additional expenses for attorneys' fees and settlements. While we appreciate that the Board has observed that requiring companies to disclose sensitive information could be prejudicial, the updated proposal to allow for these disclosures at an aggregated 'class' level has not mitigated this issue, as in many cases aggregation at a higher level will not diminish transparency. Particularly when a company is involved in relatively few overall cases but with relatively large potential claims, certain prejudicial information would be discernable even when aggregated.

For the reasons stated above, we believe that an explicit exemption from disclosing information that is prejudicial to the reporting entity is necessary. This exemption should apply not only to the disclosure of estimated loss (or range of loss) and amounts accrued, if any, but also the proposed tabular walk-forward of accrued loss contingencies by class.

Scope

Consistent with the original exposure draft, we believe the updates to Sub-Topic 450-20-50 should include a scope exception for asset impairments, including the allowance for loan losses, and guarantees. Robust disclosures related to these areas of accounting are already required within Topic 310, including the newly issued ASU 2010-20 related specifically to loan credit quality and the allowance for loan losses, and Topic 460, respectively.

Topic 310-10-50 (allowance for credit losses disclosure guidance) currently provides a disclosure scope exception related to Topic 450-20-50-3 through 50-6 (contingencies disclosure guidance). However, the proposed ASU eliminates Topic 450-20-50-3 through 50-6. Therefore, one might conclude that a scope exception from the contingencies disclosure guidance is no longer available. To include the allowance within the scope of this proposed ASU for Topic 450 would result in an overlap with those existing disclosure requirements while excluding that part of an entity's allowance that is calculated under Sub-Topic 310-10-35 (individual loan impairment), not Topic 450 (collective loan impairment). This will result in inconsistent allowance disclosures between Topics 310 and 450. In addition, the proposed ASU precludes the consideration of possible recoveries in preparing the required disclosures, which is inconsistent with the way companies measure their allowance. For example, we include an estimate of recoveries from contractually attached mortgage insurance contracts and certain other credit enhancements in the calculation of our allowance for loan losses. As such, new processes and systems would need to be developed in order to support the proposed disclosures within this ASU, which would be operationally challenging and require significant resources to implement.

Similarly, we believe adequate disclosure requirements exist within Sub-Topic 460-10 for guarantees. As with the allowance for loan losses, the determination of our reserve for guarantee losses includes estimated recoveries. Therefore, we would need to modify our processes and

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systems to support the proposed disclosures while continuing to present disclosures under Topic 460 as we do today. This would result in redundancy within the financial statements and create confusion by requiring different disclosure of the same accounting events under generally accepted accounting principles.

For these reasons, we recommend the Board include a scope exception for asset impairments, including the allowance for loan losses, and guarantees in the final ASU.

The opinions expressed in this letter are solely that of Fannie Mae and do not purport to represent the views of the Federal Housing Finance Agency as our conservator.

We look forward to further discussions of this proposal, and would be pleased to review any aspect of our letter as you deliberate the proposed guidance. Thank you for considering our views.

Sincerely,

A handwritten signature in black ink, appearing to read "Kirk C. Silva". The signature is fluid and cursive, with a prominent initial "K" and "S".

Kirk C. Silva
Vice President and Head of Accounting Policy