![Freddie Mac logo - We make home possible®]

April 1, 2011

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Sir David Tweedie, Chairman
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Via email to director@fasb.org

Reference: File Reference No. 2011-150, Proposed Accounting Standards Update,
*Supplementary Document to Accounting for Financial Instruments and Revisions to the
Accounting for Derivative Instruments and Hedging Activities – Impairment*

Dear Ms. Seidman and Sir David:

Freddie Mac appreciates the opportunity to comment on the Supplementary Document to the
Exposure Draft for the proposed Accounting Standards Update of Topic 825, *Accounting for
Financial Instruments* and Topic 815, *Accounting for Derivative Instruments and Hedging
Activities* ("Supplementary Document").

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. We hold a significant amount of financial assets and liabilities. As of December 31,
2010, our consolidated balance sheet reflects over $2.0 trillion of both financial assets and
financial liabilities.

We support the Financial Accounting Standards Board ("FASB") and the International
Accounting Standards Board ("IASB") (collectively the "Boards") in their efforts to improve the
impairment model for financial assets. We agree with the goal of addressing the weaknesses of

the current impairment model – specifically the delayed recognition of credit losses associated with financial assets and the complexity of multiple impairment approaches. However, we do not believe the common proposal contained in the Supplementary Document fully achieves this goal.

We believe that certain aspects of the common proposal, when applied to specific categories of financial assets, partially resolve the weakness of delayed recognition of credit losses. However, we believe that the common proposal increases the complexity for measuring impairment, which will significantly increase the operational burden for preparers. In fact, we do not believe we would be able to implement the common proposal and meet the financial reporting timelines prescribed by the U.S. Securities and Exchange Commission ("SEC"). Further, there are several aspects of the proposal that lack clarity, which may result in a variety of interpretations and diverse application, which will impair comparability between entities.

The Supplementary Document also contains both impairment measurement approaches favored by the IASB and the FASB. We do not believe that either the IASB or the FASB approaches meet the stated goal of the Supplementary Document. Each approach taken individually presents operational challenges, complexity, and opportunities for diverse application.

While we do not support the common proposal or either of the IASB or FASB approaches, there are aspects of each approach that, when applied to targeted categories of assets, we believe may result in an impairment measurement framework that achieves the stated goal of the Supplementary Document, without introducing significant complexity, and will improve financial reporting for impairments of financial assets.

Our specific observations on the common proposal, the IASB approach, the FASB approach, and our recommended approach are discussed in greater detail below.

Common Proposal

The common proposal does not fully address the identified weaknesses of the current accounting model. Paragraph IN1 of the Supplementary Document states the following two primary weaknesses: 1) delayed recognition of losses associated with financial instruments, and 2) the complexity of multiple impairment approaches.

Delayed recognition of losses associated with financial instruments

For loans, we believe the common proposal will result in earlier recognition of losses compared to the incurred loss model in times of a deteriorating economic environment. The common proposal requires entities to recognize "expected" credit losses instead of limiting the recognition to losses that have been "incurred". Under the incurred loss model, entities are required to incorporate historical data and current economic conditions, but prohibited from incorporating any forecasts of future events. Under the expected loss model (i.e., the common proposal), entities are required to incorporate reasonable and supportable forecasts of future events and economic conditions along with historical data and current economic conditions. This allows

entities to utilize various forward estimates of reasonable and supportable economic data (e.g., forward interest curves and forward house price index), which provides better representation of losses expected to actually occur. As such, we believe the common proposal is an improvement compared to the incurred loss model as it results in accelerated recognition of losses expected to occur in a deteriorating economic environment.

The ability to forecast future events will not always accelerate the recognition of losses. For example, in situations where the economic environment is improving and is expected to continue to improve, the forecasts of future economic events (e.g., increases in home prices and declining forward interest rates) will reduce the amount of expected losses as compared to the measurement of impairment using the existing incurred loss model (due to the prohibition of forecasting these future events in the latter). Regardless, we believe that the expected loss approach and requiring forecasts of future events is a substantial improvement in the measurement of impairment, and will produce results that are more informative and useful to users of financial statements.

While the common proposal was not designed specifically for investment securities, its scope includes debt securities. As discussed in detail in the "*Good Book vs. Bad Book Determination*" section below, we struggle to understand how the good book vs. bad book concept would be applied to debt securities. Putting that aside, if we assume certain debt securities with expected credit losses can be classified into the good book, we believe the common proposal will delay recognition of losses. Under current U.S. GAAP, if we do not expect to recover the entire amortized cost basis of a debt security, we immediately recognize the difference between the present value of cash flows expected to be collected and the amortized cost basis of the security (i.e., the lifetime credit loss) in earnings as an other-than-temporary impairment. For all securities within the good book, the common proposal would require us to only recognize a portion of this credit loss today while losses expected to occur in the future will not be immediately recognized, thereby delaying rather than accelerating the recognition of credit losses. For investment securities classified in the bad book, we believe the common proposal results in a measurement of impairment that is essentially the same as the current model under Subtopic 320-10 (*Investments – Debt and Equity Securities>Overall*).

The complexity of multiple impairment approaches

We do not believe the common proposal addresses the existing weakness of the complexity of multiple impairment approaches. On the contrary, we believe the common proposal significantly increases the operational complexity of accounting for impairments for a variety of reasons including:

- An increased number of models needed to determine impairment;
- Challenges with distinguishing between the good book and the bad book;
- Processing numerous model runs associated with reclassifying and recalculating reserves upon transfers between the good and bad books;
- Analyzing and explaining the results of the "higher of" concept for the good book; and

- Calculating, analyzing and explaining the results of the time-proportional approach ("TPA") for the good book.

The challenges presented by each of these are discussed in the following sections.

Increase in the number of models needed to determine impairment

Under current U.S. GAAP, there are three primary impairment approaches for loans and investment securities: i) Subtopic 450-20 (*Contingencies>Loss Contingencies*), ii) Subtopic 310-10 (*Receivables>Overall*), and iii) Subtopic 320-10 (*Investments – Debt and Equity Securities>Overall*). For our portfolio of financial assets that we measure for impairment, these three primary impairment approaches result in four models (i.e., systems with demonstrably distinct functions) for measuring impairments. Small balance homogeneous residential mortgage loans are measured collectively for impairment under Subtopic 450-20[1]. Commercial mortgage loans are measured individually for impairment under Subtopic 310-10 or, if not identified as individually impaired, collectively under Subtopic 450-20. Investment securities are measured for impairment under Subtopic 320-10.

The common proposal replaces those three impairment approaches with three new ones: i) expected losses for the foreseeable future ("ELFF"), ii) TPA and iii) lifetime expected losses ("LEL"). As the Boards are still discussing whether separate impairment approaches should exist for certain asset classes, such as investment securities, as well as troubled debt restructurings and purchased credit-impaired loans, additional impairment approaches could be on the horizon.

As these three new approaches will need to be applied to each asset class under the common proposal, the result is an increase in the number of models needed to measure impairments. We believe that a minimum of three models[2] would need to be developed for each asset class (one model for each of the three approaches), or a total of nine models for Freddie Mac's residential mortgage loans, commercial mortgage loans, and investment securities. For entities with a greater number of classes of financial assets, this effect would be even more pronounced. Within each class of asset, each model will require different and/or incremental assumptions, calculations and processes in order to produce results and determine the appropriate measurement of impairment.

This increase in the number of models that would need to be initially developed and subsequently maintained and applied each accounting period substantially increases the operational complexity and cost of accounting for impairments, while also jeopardizing compliance with today's compressed timelines for filing financial statements. Our quarterly financial close process currently takes approximately 35 days. Our existing process for deriving

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[1] A small and specific subset (e.g., troubled debt restructurings) of homogeneous loans is individually measured for impairment under Subtopic 310-10.

[2] The minimum of three models acknowledges the fact that the Boards have yet to re-deliberate whether a separate approach should exist for certain asset classes, troubled debt restructurings, and purchased credit-impaired loans, among other things.

the allowance for loan losses on our residential mortgage loans that we measure collectively for impairment takes approximately 25 days to complete. This includes receiving the quarter-end loan information from our servicers (we have in excess of 1,600 third party servicers), loading this data into our systems and models, running the models to measure impairment for these loans, performing analytics on the output, executing internal controls and governance procedures over the process, posting entries into the accounting systems (i.e., the allowance for loan losses and provision for credit losses), closing the books, and preparing periodic financial statements (i.e., Form 10-Qs). Once this process is complete, we need to allow sufficient time for our regulator and our audit committee to review the periodic financial statements prior to filing with the SEC.

It takes approximately 36 hours to run the models that calculate impairment for our residential mortgage loans that we measure collectively for impairment. The common proposal would result in three different models to measure impairment for these loans, and as described in greater detail below in the section titled "*Reclassifications and Recalculations of Reserves upon Transfers between Books"*, we may need to run the various models multiple times to derive information for disclosure of reclassifications between the good book and the bad book. We estimate that approximately one additional week would be necessary just to accommodate the additional models runs. The incorporation of any new models (e.g., investment securities, troubled debt restructurings and purchased credit-impaired loans) further increases this timeframe. Furthermore, additional time would be necessary to consume the model output and execute the necessary governance and controls over this process. As a result, we believe application of the common proposal to our residential mortgage loans will likely impair our ability to comply with existing financial reporting timelines prescribed by the SEC.

Good Book vs. Bad Book Determination

We do not believe the good book vs. bad book determination as described in the Supplementary Document is: 1) operational for all classes of financial assets, 2) clearly defined, 3) necessary for small balance homogeneous pool of loans measured collectively for impairment (hereafter referred to as "homogeneous loans" or "homogeneous pools"); and 4) logical for investment securities.

- *The good book vs. bad book determination is not operational for all classes of financial assets (e.g., homogeneous loans and investment securities)*

  For loans individually evaluated for impairment (e.g., commercial mortgage loans), we believe the proposed principle for distinguishing between the good book and the bad book is clear and operational, and is consistent with how we currently evaluate these types of loans for impairment. We believe that the individual identification of one of these loans as impaired is similar to the process we would employ under the common proposal to determine the loans that should be measured for impairment as part of the bad book. The evaluation of impairment for all other loans not individually identified as impaired is consistent with the common proposal's classification of loans in the good book. However, for homogeneous

residential mortgage loans and investment securities, we do not believe the good book and bad book concept is operational.

We have over 12 million residential mortgage loans that we measure collectively for impairment, and over 1,600 third party servicers who provide us information on these loans. The difficulty in making subjective determinations as to when a loan should be reclassified between the good book and the bad book, coupled with the volume of loans and the number of servicers, present significant obstacles to applying the good book vs. bad book determination to our residential mortgage loans. We believe that the only way we could operationalize the determination as to whether a loan should be classified in the good book vs. bad book would be to establish a process that uses bright lines (e.g., all loans past due greater than a certain number of days are automatically transferred to the bad book). Although the application guidance in the Supplementary Document indicates that bright lines are acceptable in certain circumstances, we believe it is not consistent with and would undermine the principle of the proposed standard.

Further, we believe that a single bright line for making this determination, such as a delinquency threshold, is insufficient as there are other incrementally indicative factors (apart from delinquency status) that are paramount to distinguishing the point at which an entity's credit risk management objective changes for residential mortgage loans. We do not believe that we could develop an appropriate matrix that captures all of factors that should be considered to make this determination, and the matrix would likely change each quarter in response to market factors. As previously mentioned above and further discussed below, we believe this will require a number of very difficult judgments that will be challenging to defend. Creating, maintaining, and applying an appropriate matrix that captures all of these judgmental factors will not only add burdens to preparers, it will also be subject to challenge and scrutiny by auditors and regulators. Further, as the policy (i.e., the threshold) for distinguishing the bad book may change from period to period based on the ever-changing market conditions, analyzing, explaining and disclosing the results will become burdensome.

Apart from these preparer-related operational challenges, we believe that entities may adopt different bright lines to operationalize these requirements, which may impair the comparability of financial results and dilute the usefulness of information provided to users of financial statements. Additionally, the lack of clarity in the definition of the principle for classification in the good book vs. the bad book may have the unintended consequence of auditors and regulators establishing practice through guidelines that are essentially bright lines in order to drive consistent application and improve auditability. Further, as these guidelines may not be consistent across jurisdictions, auditors and regulators, comparability across entities would be further decreased.

- *For large volumes of homogeneous loans, we do not believe the proposed principle for reclassification between the good book and bad book (i.e., the point at which your credit risk management objective changes) is clearly defined*

Determining when an entity's credit risk management objective changes from receiving regular payments to recovery of all or a portion of the financial asset could be interpreted a number of ways, with the differing interpretations resulting in large discrepancies in the amount of impairment recognized. One possible interpretation is that once a borrower misses a single payment, servicing of the loan changes from collection or regular payments to loss mitigation activities, so all loans with a single missed payment should be reclassified to the bad book. Another interpretation might be to evaluate when the servicing aim changes from collection of payments to recovery from the underlying collateral (i.e., when the servicer discontinues working with the borrower to continue performance on the loan, and moves to foreclosure actions or collateral liquidation). The point at which a servicer decides to pursue the collateral will vary based on a number of factors, such as the loan-to-value ("LTV") ratio, delinquency status, home price forecasts, and other factors. If the LTV ratio exceeds 100%, borrowers have less incentive to continue to pay their loan, and this situation may be further exacerbated when home prices are expected to decline or remain flat. However, when the LTV ratio is below 100%, the borrower has more incentive to continue to pay their loan. There is an inverse relationship between the LTV ratio and the borrower's incentive to pay their loan; however, this relationship may be affected by other factors such as home price forecasts. For our residential mortgage loans, the determination as to when the credit risk management objective changes will likely have to be made at the loan level.

For example, a loan that is 30 days past due with a LTV ratio in excess of 150% may have a high probability of default, so it might be considered for reclassification to the bad book. In contrast, a loan that is 150 days past due with a LTV ratio of 70% may have a very low probability of default, so continued classification in the good book may be appropriate. Additionally, default probabilities change over time as market conditions evolve. These examples illustrate a few simple situations that complicate our ability to apply the good book vs. bad book principle to our residential mortgage loans. The year of origination, loan product type, and geographic location of the borrower may also impact how the credit risk management objective might change for a given loan. Because of these factors, we believe we would be required to make many difficult judgments that will be challenging to defend to both auditors and regulators on a quarterly basis. Changes in market conditions will continually affect how we make these judgments. This will require continual reassessment each reporting period and may result in the "triggers" for moving loans between the good book and bad book to change from period-to-period, which presents its own unique set of challenges.

- *The distinction between the good book and the bad book is not necessary for homogeneous loans (e.g., residential mortgage loan)*

A common approach for measuring impairment for homogeneous residential mortgage loans involves applying historical probabilities of default (adjusted for current economic factors) to delinquency categories, then applying a loss severity rate to determine the probable losses. This method essentially entails identifying loans where losses are expected to occur, then applying a loss severity rate to those loans. For delinquent loans the result is not dissimilar from recognizing the full amount of remaining LEL (e.g., the approach for the bad book).

We believe supplementing this existing process with the requirement to remove the "probable" threshold of the existing incurred loss model and permitting forecasting of future events will result in an impairment measurement that will capture the ELFF for the remaining loans (i.e., similar to the approach for the good book). The net result is that the ELFF are calculated across the entire population of loans measured collectively for impairment. We believe this will achieve the same objective as the good book vs. bad book approach without the operational complexity associated with determining which loans should be classified in each category. Refer to the section below titled *"Expected Credit Losses for the Foreseeable Future Approach"* for further discussion on this topic.

- *The distinction between the good book and the bad book is not logical for investment securities.*

  Unlike loans, holders of investment securities do not typically become more involved with the assets or change their credit risk management objective when they do not perform as expected. Holders assess whether a security is impaired or not, and they are currently required to measure credit losses based on the full amount of remaining LEL, which is essentially the same as the proposed bad book approach. We believe this approach is logical, and produces results that are useful, understandable, and have predictive value. Additionally, for many mortgage-backed securities, expected credit losses typically occur later in the life of the security (i.e., because the cash flows collected from the underlying mortgage loans are distributed to the holders of the security based on a pre-defined priority). As a result, if a mortgage-backed security with credit impairment were classified in the good book and the impairment was measured using the ELFF approach, there may be no impairment, as the expected losses will not occur in the foreseeable future; however, the very same security would have impairment if it were classified in the bad book. As such, we struggle to understand how the good book concept could be applied to investment securities.

Reclassifications and Recalculations of Reserves upon Transfers between "Books"

The IASB-proposed concept of reclassifying reserves to a financial asset that is transferred from the bad book to the good book is not clear. The guidance in paragraph BZ24 of IASB's Appendix Z states that when a financial asset is transferred between the two groups, the amount that is transferred between the impairment allowances for the two groups shall be determined in accordance with paragraph 2(a)(i). This appears to indicate that any reclassification of a reserve, regardless of which impairment approach the transferred asset's current reserve is based upon (i.e., ELFF, TPA, or LEL), must be recalculated using the TPA. We cannot discern why there appears to be a singular focus on the TPA amount for the purpose of reclassifying reserves.

While an asset is in the bad book, its reserve is determined based on the LEL. If, upon transfer to the good book, the amount transferred between reserves is the TPA amount, the incremental difference representing the remainder of the LEL is "stranded" in the bad book allowance. When the bad book reserve is recalculated, all other things being equal, the reserve would be reduced because of the "stranded" amount relates to an asset that is no longer in the bad book. The result is that the tabular reconciliation of the bad book reserve is affected in two separate places (i.e.,

the amount transferred using the TPA and the incremental reduction upon recalculation at period end) for the same event (i.e., the transfer to the good book). Analyzing and explaining such effects could be difficult for preparers to disclose and challenging for users of financial statements to consume.

Likewise, it is also unclear why reserves transferred from the good book to the bad book should always be based on the TPA amount. If an asset's reserve in the good book were based upon the ELFF, transferring the TPA amount to the bad book would "strand" any incremental difference between the TPA amount and ELFF[3] in the good book reserve. A similar effect would occur in the tabular reconciliation of the good book reserve and the same challenges would be presented in preparing and consuming the related disclosures by preparers and users of financial statements alike.

As such, we believe that, if the Boards conclude that reclassifications of reserves are required, the amounts reclassified upon transfers between books should be based upon the impairment approach employed for the asset being transferred just prior to the time of transfer.

Also, it is unclear as to whether there is a requirement to "top-off" the good book and/or bad book reserves immediately upon a transfer of an asset to either book. For example, the illustrative example in paragraph IEZ18 of the IASB's Appendix Z appears to indicate that, upon a transfer to the bad book, the reserve is "topped off" for the incremental amount of the LEL immediately upon transfer. Incorporating such a requirement into the context of the common proposal would present additional operational challenges. For example, the "top-off" amount for the good book would require a separate "higher of" analysis that could only be determined by additional model runs.

Apart from the lack of clarity about which impairment model should be used to calculate the amount to transfer between the good book and the bad book, the concept of reclassifying and recalculating reserves will substantially increase the operational complexity of disclosing impairment results. To comply with the IASB's proposed disclosure requirements, determining the appropriate amounts to reclassify upon transfers between the good and bad books along with the related "re-estimation" process for the good and bad books would require running the various impairment models (i.e., ELFF, TPA, and LEL) multiple times. These additional model runs will significantly increase the operational burden of applying the proposed impairment model.

For example, our current process for measuring impairment for our residential mortgage loans that we measure collectively for impairment does not attribute losses at the loan level. We would likely measure impairment for the good book using a similar approach – collectively as a series of homogeneous pools. As a result, we will need to perform the following model runs:

Transfers between the good book and the bad book:

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[3] If the ELFF were less than the TPA amount, the opposite effect would occur.

- Measure the TPA impairment attributable to loans to be transferred to the bad book (based on paragraph BZ24, this would be one model run – to determine the TPA amount)

  The measurement of impairment for homogeneous residential mortgage loans considers a variety of factors, including LTV ratio, historical trends in home prices, loan product type, delinquency status and delinquency history, year of origination, geographic location, occupancy type (i.e., owner occupied vs. investor properties), sourcing channel (i.e., retail, wholesale, broker, correspondent, retention, etc.), credit enhancements (i.e., mortgage insurance), etc.

  Because impairment is measured collectively rather than at the loan level, we cannot simply take a pro-rata percentage of the allowance to transfer to the bad book, as this will not produce an accurate reflection of the allowance attributable to the individual loan. To derive the amount of good book impairment to be transferred, we would need to first identify the loans to be reclassified to the bad book, then run the TPA impairment model to calculate the proper amount of good book impairment attributable to these loans.

- Depending upon the interpretation of paragraph BZ24, as indicated above, measure the TPA impairment attributable to loans to be transferred to the good book

  The measurement of impairments for loans in the bad book will be based on the LEL approach. The TPA would need to be run to determine the TPA amount attributable to these loans that are being transferred to the good book.

- Bad book – Measure the additional impairment (i.e., the "top-off" impairment) to be recognized for loans transferred from the good book

  Once loans have been transferred, the bad book model would need to be run to derive the incremental impairment to be recognized for the transferred loans.

- Good book – Depending upon the interpretation of paragraph BZ24 and IEZ18, as indicated above, measure the additional impairment (i.e., the "top-off" impairment) to be recognized for loans transferred from the bad book

  Once loans have been transferred, the good book model would need to be run to derive the incremental impairment to be recognized for the transferred loans.

Measurement of impairment at the end of the reporting period:

- Good book

  After reclassifications between the good book and bad book are complete, we would be required to perform two model runs to measure impairment on the entire population of loans in the good book at the end of the period – the ELFF model run and the TPA model run.

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- Bad book

  After reclassifications between the good book and bad book are complete, we would measure impairment for the bad book on the entire population of loans in this category at the end of the period.

We believe the additional model runs necessary to reclassify a loan between the good book and the bad book to derive disclosure amounts will be very time consuming and expensive, and may impair our ability to meet SEC reporting timelines. Further, we do not believe that the benefits derived from the disclosure of the transfer amount justify the costs necessary to derive these amounts.

Additionally, when Accounting Standards Update No. 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* ("ASU 2010-20"), was first exposed for comment, there were similar requirements to disclose transfers between reserves for loans evaluated collectively and individually for impairment. Many respondents observed the operational complexity associated with deriving these amounts for disclosure. We believe the disclosures about the allowance for credit losses required by ASU 2010-20 are practical alternatives that provide useful information for users of the financial statements, and are operational to derive in a timely and controlled manner. We encourage the Boards to consider adapting the disclosures required by ASU 2010-20 to the final impairment model.

Higher-of Concept for the Good Book

The common proposal's good book requires the "higher of" the TPA and the ELFF approach to be recognized as the cumulative credit loss for the period. We believe that the "higher of" concept will result in a very complicated disclosure that will be difficult to understand and difficult to correlate to our actual exposure to credit risk. As described in greater detail in the section titled "*Good Book - Time-Proportional Approach*" below, we do not believe the TPA will ever result in a higher impairment amount than the ELFF approach for any of our loans. However, in very limited circumstances, it may be possible for the TPA to come into play, such as a closed pool of loans with a long expected life and minimal expected losses in the first few years of the pool. In such a situation, we can foresee the TPA resulting in a higher impairment amount at the beginning of the pool; however, as soon as losses start to increase, the ELFF would become the higher amount. We believe that disclosures associated with such a situation would be difficult to understand, and may impair the predictive value of the impairment information for users of our financial statements.

Good Book - Time-Proportional Approach

We do not support the requirement to calculate credit losses under the TPA. The TPA simply results in smoothing of the income statement recognition of credit losses over time. This approach is inconsistent with how credit losses emerge, how credit risk is managed and how

credit loss forecasts are derived. Credit losses do not emerge in a smooth fashion as suggested by the TPA. Creditors and investors in debt securities are exposed to volatility due to credit risk of these assets. To be useful, transparent, and provide predictive value, we believe the financial statements should reflect this volatility. We do not understand how credit risk smoothed over time provides this type of information. As a result, use of the TPA may cause entities to adopt new segment reporting measures that are consistent with how credit risk emerges and is managed that will need to be reconciled to the U.S. GAAP financial statements.

We believe this approach will impair the ability of financial statement users to compare credit performance and servicer performance between entities. Differences in credit quality will not be as readily apparent, as the impairment amounts will be smoothed over time. Furthermore, if different entities have loan portfolios with similar credit characteristics, differences in performance of loan servicing (e.g., loss mitigation actions) will not be readily apparent, as impairment recognition is smoothed over time.

The TPA's requirement to recognize a cumulative catch up adjustment may introduce volatility in earnings that is not based on current period changes in credit. We experienced a similar phenomenon amortizing basis adjustments using the prepayment approach under Subtopic 310-20 (*Receivables>Nonrefundable Fees and Other Costs*). Volatility created by the cumulative catch up adjustments recognized due to changes in estimated prepayments was difficult to explain, and users of our financial statements often struggled to understand the outcome.

Furthermore, the TPA will exacerbate the operational challenges by increasing the number of calculations necessary to measure impairment. The most significant challenge relates to the mandate to calculate the weighted average total expected life, which requires entities to incorporate prepayment estimates in the measurement of impairment. Prepayment speed assumptions are not readily available, and often require complex models. Additionally, we believe there may be differences in assumptions due solely to the level of sophistication of an organization. We believe incorporation of prepayment assumptions into the measurement of impairment may prove to be very challenging for smaller organizations. As a result, we anticipate that prepayment speed assumptions will vary significantly across entities, impairing comparability.

In addition to the issues discussed above, we do not believe there are instances where we would be required to recognize credit losses based on the TPA results for an open portfolio of residential mortgage loans. Typically, credit loss patterns associated with financial assets are not proportional over the expected life of the financial asset. For residential mortgage loans, losses typically begin to ramp up gradually over the first few years, then the majority of the losses are recognized over the next several years. Subsequently, losses gradually decline until almost all expected losses have been realized, which is typically no longer than approximately 10 years after origination. However, the expected life of the loans will likely exceed the period over which expected losses will occur. Our exposure to credit losses declines over time due to normal amortization from borrower scheduled principal payments, unscheduled principal prepayments (i.e., extra principal payments made by the borrower), home price appreciation, and other factors that build up a borrower's home equity over time. As the principal of a loan declines from

scheduled and unscheduled principal payments, and the value of the underlying home increases, an inflection point is reached where there is virtually no loss exposure left in the loan, despite the fact that the loan may continue to remain outstanding for many years thereafter. This inflection point is commonly referred to as the "loss burn out" point (i.e., where there are no more losses remaining in the pool). The loss burn out point will differ by pool and by market condition; however, when using some of the worst-case data we have experienced in decades, this data shows the burn out point does not generally extend beyond approximately 10 years.

The following charts further illustrate how expected credit losses emerge compared to the expected declines in the unpaid principal balance ("UPB") of the loans in the pool due to scheduled payments (i.e., normal amortization) and unscheduled prepayments (i.e., voluntary and involuntary prepayments). The following charts show the percentage of the original loan UPB that is expected to remain outstanding at the end of each period, as well as the percentage of remaining expected losses for the loans in the pool. These charts show the expected life and expected credit losses for a pool of loans under different economic scenarios.

This first chart contemplates initial home price depreciation for the first several years followed by modest home price appreciation thereafter, as well as slow prepayments. These market conditions are similar to current market conditions. As you can see from this chart, the expected credit losses for the loans in this pool are (essentially) fully realized between years six and seven; however, after 19 years, 10% of UPB of the loans is still expected to remain outstanding.

Comparison of Expected Amortization of a Pool of Loans and the Expected Losses for the Pool
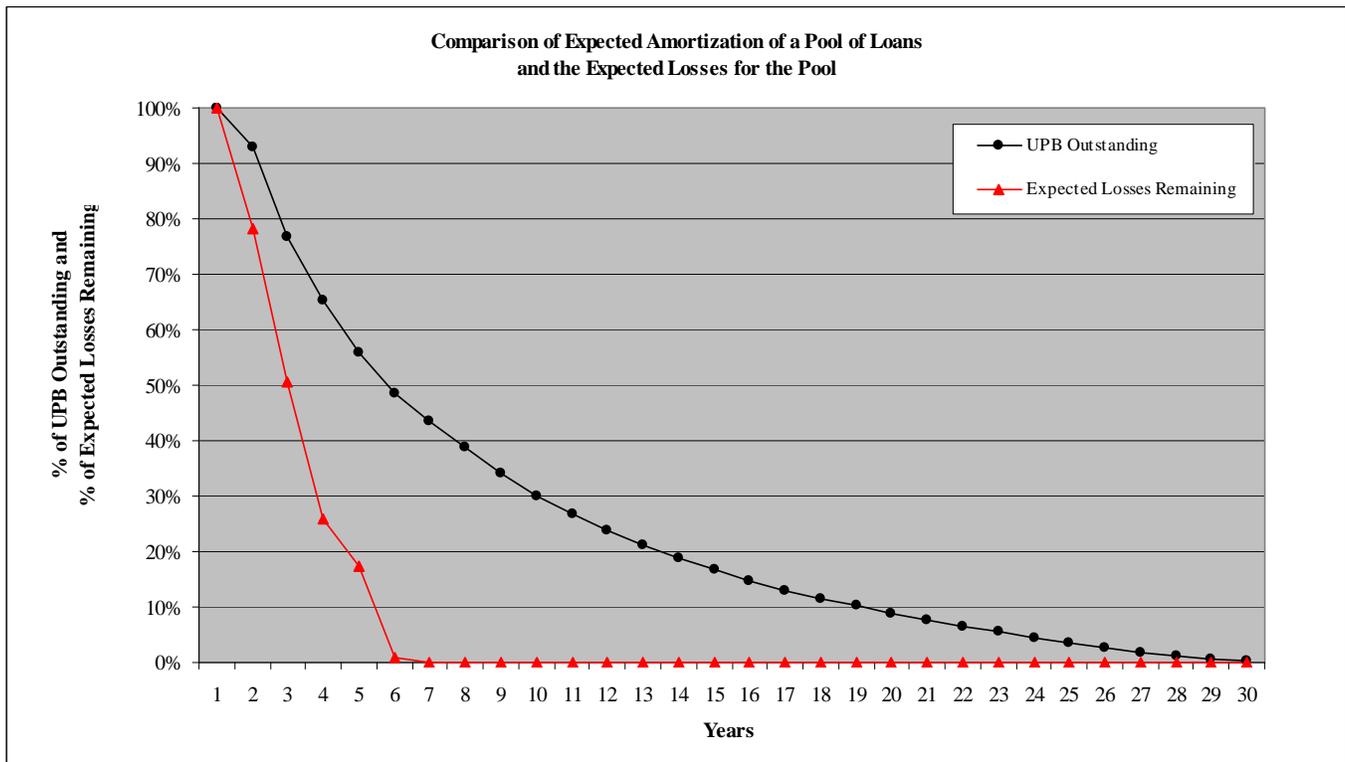
This second chart contemplates flat home prices (i.e., very little home price appreciation over time), as well as very slow prepayments. From this chart, you can see that the expected credit

losses for the loans in this pool are (essentially) fully realized around year 10; however, after 17 years, 10% of UPB of the loans is still expected to remain outstanding.

Comparison of Expected Amortization of a Pool of Loans and the Expected Losses for the Pool
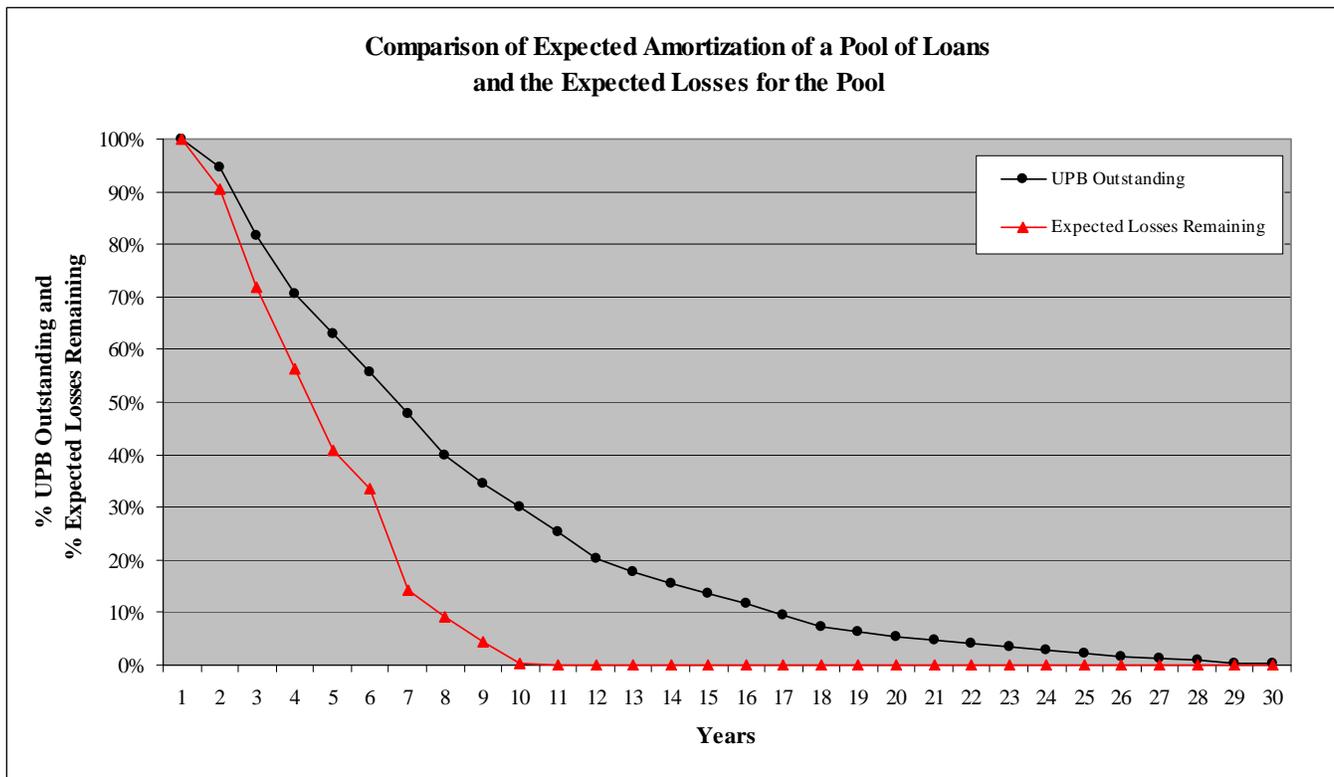
This third chart contemplates very fast prepayments, which result in simultaneous declines in expected credit losses and the remaining UPB of the pool.

Comparison of Expected Amortization of a Pool of Loans and the Expected Losses for the Pool
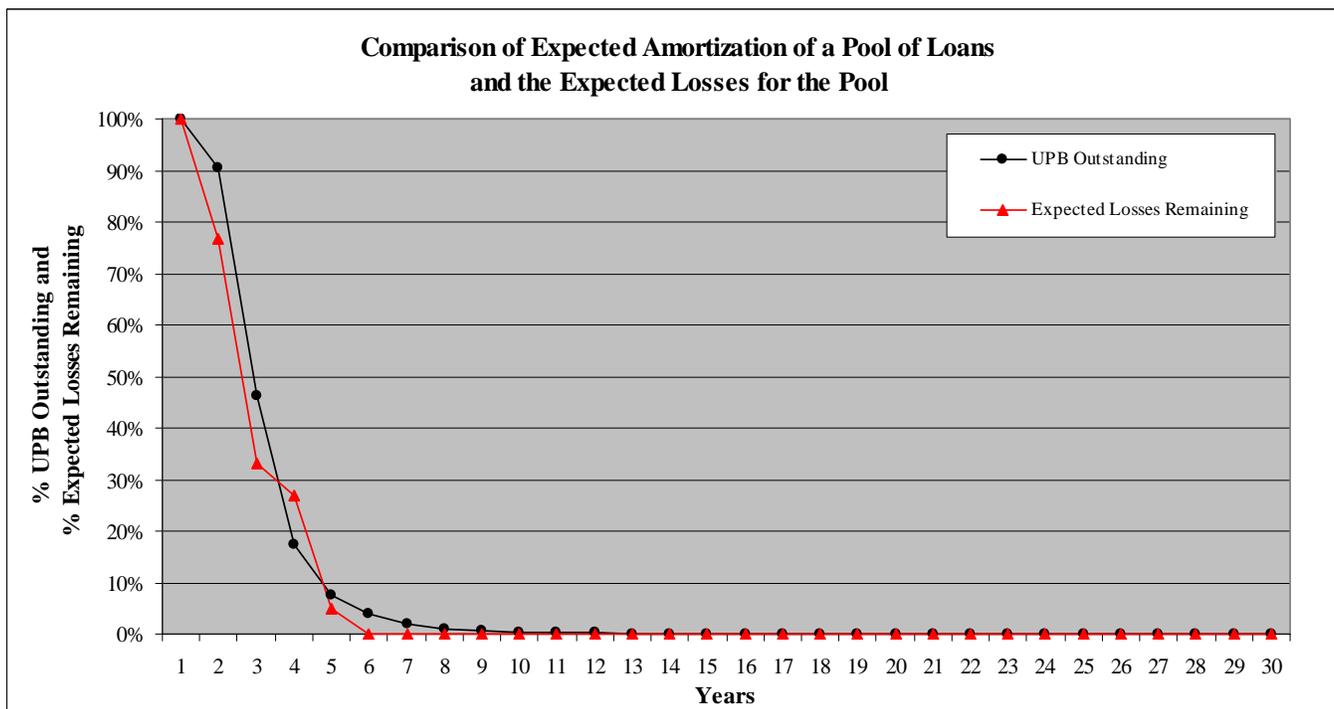
Based on how credit risk emerges for residential mortgage loans, we do not believe the TPA amount will ever be the higher impairment amount under the common proposal for this class of financial assets. Said differently, we believe the ELFF approach (i.e., paragraph 2(a)(ii)) will typically be higher than the amount calculated in accordance with the TPA (i.e., paragraph 2(a)(i)). As shown in the charts above, the expected credit losses emerge well in advance of either the contractual maturity or the expected life of these loans. Additionally, we modeled over 1,000 different scenarios to evaluate the expected lives of a pool of loans as compared to the expected losses for the same pool. In all circumstances, we believe the ELFF would be higher than impairment measured under the TPA. While we may believe that the ELFF will always be greater than the TPA, we anticipate that we will still be required to perform the calculation to support this conclusion each reporting period (i.e., support for auditors and regulators).

Because we can only foresee very limited circumstances where the TPA might produce a higher loss amount, we suggest that this approach be removed from the common proposal. We believe this will reduce the complexity and operational burden of the common proposal, and it will result in an impairment model that is easier to explain to users of our financial statements.

Good Book - Expected Credit Losses for the Foreseeable Future Approach

We believe the ELFF approach for homogeneous loans is a significant improvement to the existing incurred loss model. The removal of the probable threshold, which has the affect of extending the loss emergence period further into the future, coupled with the requirement to incorporate forecasts of future economic events, will address many of the noted weaknesses of the current incurred loss impairment model – and it would do so without requiring a complete overhaul of an entity's existing processes.

Our two primary concerns associated with this approach include how this method might be applied to investment securities and the lack of a clear explanation on what is meant by the term "foreseeable future."

For investments in debt securities, if we do not expect to recover the entire amortized cost basis, we are required under existing U.S. GAAP to immediately recognize the difference between the present value of cash flows expected to be collected and the amortized cost basis of the security (the credit loss) in earnings as an other-than-temporary impairment. This is a lifetime view of expected losses.

The majority of our investments in debt securities are mortgage-backed and asset-backed securities. Mortgage-backed securities and asset-backed securities are created through securitization of the underlying collateral (typically loans), and the cash flows from the collateral are passed through to the holders of the securities, based on a pre-defined cash flow waterfall. As a result, when collateral losses occur, this typically has the effect of impacting cash flows available to the security holder later in the life of the bond, though it is possible that certain securities may experience losses earlier in their expected lives based on the cash flow waterfall priority. The more senior securities tend to experience losses, if at all, only in periods far into the future. As a result, if the ELFF approach of measuring impairment were applied to

investments in this type of security, such securities may not have any impairment to recognize, whereas under existing U.S. GAAP, impairment for the LEL would have been recognized. Accordingly, we believe that application of the ELFF approach of impairment measurement to certain investment securities may have the unintended consequence of delaying recognition of impairment, which is inconsistent with the goal of the Supplementary Document.

As currently drafted, we do not believe the foreseeable future is clearly defined in the Supplementary Document. We share the concern expressed by certain Board members in paragraph BC86 that the foreseeable future period is not defined with enough specificity such that the application may be subjective, thereby decreasing comparability. As currently described, there could be a wide range of interpretation of what this term means and an entity's view of the foreseeable future could change significantly in different economic environments. We recommend the Boards provide a more robust definition of the foreseeable future or provide additional discussion in the Basis for Conclusions or Implementation Guidance, so that preparers, auditors, and regulators can properly and consistently apply this principle. Further, we encourage the Boards to avoid establishing bright lines, such as floors and ceilings, as we do not believe this improves financial reporting. Absent additional clarification, we believe an unintended consequence might be that auditors and/or regulators provide bright lines with the intent of driving consistency. Further, we are concerned that auditors and regulators in different jurisdictions may provide different guidance, which reduces consistency globally, and creates an environment for regulatory arbitrage.

The Boards might consider providing factors to consider when determining the foreseeable future. A possible factor to consider would be the average length of time between the initial delinquency (i.e., when the borrower first defaults on the loan) and the ultimate realization of a loss (i.e., final liquidation of the underlying collateral), considering the full business cycle (i.e., through good and bad economic times). This would provide a timeframe that is objective, measurable, auditable, and would not be expected to vary significantly over time. We believe such an approach would drive consistent application of the foreseeable future concept between entities that have similar types of loans. Furthermore, this factor may reduce the likelihood of changes to the foreseeable future timeframe when the economic environments change, which should further improve consistent application between entities.

Bad Book – Full Amount of Remaining Lifetime Expected Credit Losses

For loans individually identified for impairment, we believe the bad book approach is essentially the same as the existing approach for measuring impairment in accordance with Subtopic 310-10 – with the incremental improvement of requiring forecasts of future economic events. The bad book approach is more aligned with how we view, manage, and forecast credit risk for loans individually identified for impairment (e.g., commercial mortgage loans). As such, we believe adopting this model for loans individually identified for impairment would be an improvement to the current impairment model.

For investment securities with any anticipated credit losses, we believe the bad book approach is essentially the same as the existing approach for measuring impairment in accordance with

Subtopic 320-10 with the improvement of allowing impairment to be treated as a reserve that can be reversed (i.e., eliminating the concept of other-than-temporary impairment and replacing it with the concept of an allowance where prior impairments can be reversed in certain circumstances). Additionally, we believe the treatment of impairment as a reserve is more consistent with how we view and manage credit risk for investment securities.

As mentioned earlier in this letter, we do not believe the bad book concept should be applied to homogeneous loans, but rather, this category of loans, in its entirety, should be measured using the ELFF approach.

Other Matters

Discounting

We do not believe entities should have the option of choosing the discount rate to be applied in calculating impairment (e.g., within the range of risk-free rate to effective interest rate) as it will reduce comparability between entities. We believe that the potential for such a wide range of "acceptable" discount rates to be utilized lacks conceptual merit. If discounting is permitted or required, we encourage the Boards to require use a discount rate based on the assets' original effective interest rate. The original effective interest rate is already needed to amortize premiums and discounts, so we believe this information will already be available.

Additionally, we do not believe the option on whether or not to discount (e.g., under the TPA) should be permitted, as it will further reduce comparability between entities.

Conceptually, in order to discount expected credit losses, this proposed guidance assumes an entity will either forecast expected cash flows or attribute the remaining lifetime expected credit losses to future periods. Absent an expected cash flow forecast or period attribution of expected losses, discounting will not be possible.

For homogeneous loans, Subtopic 450-10 does not require discounting. A common impairment measurement technique for homogeneous loans applying historical loss transition rates to delinquency buckets to identify the portion of loans that are expected to have experienced a loss event, and applying a loss severity rate to such loans. This measurement process does not involve the forecasting of future cash flows or attribution of the expected losses to future periods. Accordingly, we do not believe that impairment measured in this manner could be discounted and produce a meaningful result. As a result, we do not believe that discounting should be permitted for loans measured collectively for impairment.

In contrast, impairment measurement guidance contained in Subtopic 310-10 for loans individually identified for impairment and Subtopic 320-10 for investment securities already contain guidance on discounting the expected future cash flows. Since impairment for individually identified loans and investment securities will follow the bad book approach to measuring impairment under the common proposal, we believe that discounting could be required for the bad book without introducing operational burdens or increasing complexity.

Further, we observe that the Supplementary Document indicates that when discounting is applied, the <u>expected loss</u> amount should be discounted. We believe this will produce counterintuitive results. Discounting the expected loss amount lowers the total loss to be recognized. It appears that the Boards may have intended to say that the expected <u>cash flows</u> should be discounted, rather than the expected loss amount. By discounting the expected cash flows, the measurement of the impairment (i.e., the difference between the carrying value and the discounted expected cash flows) will produce a larger impairment amount.

Lastly, we believe providing the option on whether or not to discount and the option to select a discount rate may have the unintended consequence of auditors and regulators providing guidance to drive consistency. This would, in turn, have the unintended consequence of establishing bright lines, which may differ across jurisdictions.

Open vs. Closed Portfolios

While we recognize that the Boards have yet to re-deliberate an impairment model for "closed portfolios", we are concerned with the potential for a different impairment approach for assets in such a portfolio. We do not believe that there is sufficient difference in credit risk between an open and a closed portfolio to require different impairment models. As such, the distinction in the accounting guidance is not necessary. There may be operational reasons why an entity may decide to model and measure impairment differently given the circumstances (i.e., for loans isolated in a securitization trust where no new loans will be added vs. a portfolio of loans held on balance sheet that continually changes); however, we believe that entities should be permitted to determine how to apply the principles of an impairment model without the need to provide explicit detail as to how portfolios should be viewed and componentized.

Further, we struggle with how to apply the concept of "open" and "closed" portfolios to certain classes of assets, such as investment securities. For mortgage-backed and asset-backed securities, there are isolated pools of collateral that provide cash flows to support each security. As a result, we believe that these types of investment securities would be considered closed portfolios; however, for other types of debt securities, entities might consider various securities together as an open portfolio, similar to loans. We believe the separate open and closed portfolio concepts will only increase the complexity of the overall impairment framework. As a result, we encourage the Boards to focus on the type of assets, such as homogeneous loans measured collectively, loans identified individually for impairment, and investment securities, rather than introducing new and complex categories.

The IASB's approach

In total, we do not support the IASB's approach. As the IASB's approach is a subset of the common proposal, our comments on the IASB's approach have been included in the discussion above. The following points summarize our views on the IASB's approach.

- We do not support the TPA for the good book for any class of financial assets.

- We do not support distinguishing between the good book and the bad book for homogeneous loans.
- We do not support the option to discount or the option to choose the discount rate.
- We support the good book vs. bad book distinction for loans individually identified for impairment (i.e., commercial mortgage loans).
- We support the impairment measurement method for the bad book when applied to loans individually identified for impairment and investment securities.

The FASB's approach

In total, we do not support the FASB's approach. The FASBS proposal is also a subset of the common proposal that we have commented on in previous sections of this letter. The following points summarize our views on the FASB's approach:

- We support the ELFF approach for homogeneous loans.
- We partially support the ELFF approach for loans individually identified for impairment (i.e., to be applied to the loans in this category not individually identified as impaired only).
- We do not support the impairment measurement approach for investment securities.

Our Recommended Approach

While we do not support the common proposal or either of the IASB or FASB approaches, there are aspects of each that, when applied to categories of assets, we believe may result in an impairment measurement approach that achieves the stated goal of the Supplementary Document, is not overly complex, is operational, and will improve the overall financial reporting for impairments.

To measure impairment of financial assets, we believe they should be segregated into the following categories:

- Homogeneous loans measured collectively for impairment;
- Non-homogeneous loans measured individually for impairment; and
- Investment securities

These categories are consistent with current U.S. GAAP, which has been developed over several decades. We believe there are sound reasons to measure impairment differently for these categories, and the accounting has been developed in recognition of these reasons. We do not believe the Supplementary Document has provided any substantive reasons to abandon these categories. By maintaining these categories, we believe much of the operational complexity described above regarding the common proposal may be minimized.

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Homogeneous loans measured collectively for impairment

For this category of loans, we believe that the FASB's approach, ELFF, provides the best impairment measurement model. The FASB's approach will result in earlier recognition of losses in times of a deteriorating economic environment, and we believe this approach is consistent with how we view, manage, and forecast credit risk. While this approach does differ somewhat from the existing measurement approach for this category, we do not believe these differences will be difficult to implement and apply in a controlled manner. As discussed in detail in the section titled "*Good Book vs. Bad Book Determination*", a common approach for measuring impairment for homogeneous residential mortgage loans involves applying historical probabilities of default (adjusted for current economic factors) to delinquency categories, then applying a loss severity rate to determine the probable losses. We believe implementing the ELFF approach involves supplementing this existing process with the requirement to remove the "probable" threshold of the existing incurred loss model and permitting forecasting of future events.

Although implementing the ELFF approach requires modifications to existing models, we believe it will only require enhancements and changes to our existing models, rather than wholesale replacement with entirely new models. Additionally, we do not believe these changes will have any impact on our financial reporting timelines. To enhance transparency and comparability, we recommend explicitly prohibiting discounting, as well as providing additional clarity on the concept of the foreseeable future.

Non-homogeneous loans measured individually for impairment

For this category of loans, we believe the IASB's approach of establishing a good book and bad book has merit, and is very consistent with how we evaluate impairment under our existing practice. However, we believe the impairment measurement approach for the good book should follow the FASB's ELFF approach. We agree with the IASB's LEL approach for the bad book. Lastly, we recommend requiring measurement of the bad book to include discounting expected cash flows at the loan's original effective interest rate.

Investment securities

For investment securities, we recommend application of the IASB's LEL approach for the bad book. We do not believe the good book concept works well (or is intuitive) for investment securities, so the good book concept should not be available for this type of asset. Lastly, we recommend requiring discounting at the security's original effective interest rate.

The following table summarizes our recommended approach:

Population	Our Recommended Approach
Homogeneous loans measured collectively for impairment	Recognize ELFF (i.e., FASB's approach) with an enhanced definition of the foreseeable future. Specify that discounting is not allowed.
Non-homogeneous loans measured individually for impairment	Good Book: Recognize ELFF (i.e., FASB's approach) with an enhanced definition of the foreseeable future. Specify that discounting is not allowed. Bad Book: Recognize the full amount of remaining LEL (i.e., IASB's bad book approach) with discounting of the expected cash flows at the original effective interest rate.
Investment securities	Presume that all security impairments will be in the bad book. Bad Book: Recognize the full amount of remaining LEL (i.e., IASB's bad book approach) with discounting of the expected cash flows at the original effective interest rate.

We believe our recommendation results in an impairment model that individually, and in the aggregate, achieve the goal of the Supplementary Document. It will result in earlier recognition of credit losses in times of a deteriorating economic environment and reduce some of the complexities in existing U.S. GAAP. Furthermore, as our recommendation involves enhancements to currently existing processes instead of a complete overhaul, it alleviates many of the operational burdens of the common proposal while providing decision-useful information to users of financial statements.

Lack of a Complete Impairment Model

Our final observation on the Supplementary Document is that it presents an incomplete impairment model. The Supplementary Document specifically does not address closed portfolios, investments in debt securities, troubled debt restructurings, or purchased loans with evidence of credit deterioration since origination. By not presenting a comprehensive impairment model we are unable to fully evaluate how the proposal may impact our business, as several of the areas that have not yet been addressed are related to the areas covered by the proposal. If a comprehensive impairment model were presented, we may have different observations and our recommendations might change.

Given that the Boards are still re-deliberating other aspects of the impairment model, we are concerned that a complete impairment model cannot be developed and thoroughly evaluated by constituents by the June 30, 2011 date the Boards have targeted for completion of this project. We encourage the Boards to take the requisite time to achieve their stated objective of issuing

high quality, converged accounting standards, including providing a reasonable amount of time for due process.

Lastly, given the significant changes that have been made to the proposed accounting for financial instruments since the proposal was first exposed for comment in May 2010, we believe that the entire Accounting for Financial Instruments proposal should be re-exposed once re-deliberations are complete. This re-exposure should include the planned updates to the Codification, so that constituents can understand how the proposal will impact the accounting, financial statement presentation, and disclosures related to financial instruments more holistically. We recognize that these suggestions will result in additional time and effort expended by both the Boards and by constituents; however, we believe sufficient due process which may delay issuance of a final standard is a small price to pay for the increased benefits produced by this additional due process for this immensely important project.

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Included in the Appendix to this letter are Freddie Mac's responses to each of the individual questions posed by the Board in the Supplementary Document.

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 Supplementary Document. If you have any questions about our comments, please contact Timothy Kviz (703-714-3800).

Sincerely,

Timothy Kviz
Vice President – Accounting Policy

cc: Mr. Ross J. Kari, Executive Vice President - Chief Financial Officer
       Mr. Robert D. Mailloux, Senior Vice President – Corporate Controller and Principal
       Accounting Officer
       Mr. Nicholas Satriano, Chief Accountant, Federal Housing Finance Agency

Appendix

This Appendix includes our responses and comments to the specific questions that were raised by the Boards in the Supplemental Document.

General

Question 1 - Do you believe the proposed approach for recognition of impairment described in this supplementary document deals with this weakness (i.e., delayed recognition of expected credit losses)? If not, how do you believe the proposed model should be revised and why?

Response: We believe that the common proposal does not fully address the identified weaknesses of the current accounting approaches for recognition of impairment. We believe that the proposed approach partially resolves the weakness of delayed recognition of impairments. Refer to the section titled *"Delayed recognition of losses associated with financial instruments"* in the body of our comment letter above for further discussion on this topic. We also believe that the proposed approach increases, rather than reduces, the complexity of multiple impairment approaches. Refer to the section titled *"The complexity of multiple impairment approaches"* in the body of our comment letter above for further discussion on this topic.

Scope

Question 2 - Is the impairment model proposed in the supplementary document at least as operational for closed portfolios and other instruments as it is for open portfolios? Why or why not?

Although the supplementary document seeks views on whether the proposed approach is suitable for open portfolios, the boards welcome any comments on its suitability for single assets and closed portfolios and also comments on how important it is to have a single impairment approach for all relevant financial assets

Response: It depends. We believe that the proposed impairment model is at least as operational for closed portfolios as it is for open portfolios as its application to closed portfolios would not introduce any new variables, constraints, assumptions or anything that otherwise would present a new operational challenge.

Nonetheless, we foresee various operational challenges in applying the proposed impairment model to open portfolios and closed portfolios alike. These challenges will considerably increase the amount of time and resources needed to properly apply the model, account for its outputs and comply with potential disclosure requirements. Refer to the following sections in the body of our comment letter above for further discussion on this topic:

- *"The complexity of multiple impairment approaches"*;
- *"Increase in the number of models needed to determine impairment"*;

- *"Good Book vs. Bad Book Determination"*;
- *"Reclassifications and Recalculations of Reserves upon Transfers between Books"*,
- *"Higher-of Concept for the Good Book"*; and
- *"Good Book - Time-Proportional Approach"*.

Differentiation of credit loss recognition

Question 3 - Do you agree that for financial assets in the 'good book' it is appropriate to recognize the impairment allowance using the proposed approach described above? Why or why not?

Question 4 – Would the proposed approach to determining the impairment allowance on a time-proportional basis be operational? Why or why not?

Question 5 – Would the proposed approach provide information that is useful for decision-making? If not, how would you modify the proposal?

Responses to Questions 3, 4 and 5: No. We believe that the "higher of" concept required by the good book approach will result in a very complicated disclosure that will be difficult to understand and difficult to correlate to our actual exposure to credit risk. Also, the TPA simply results in smoothing of the income statement recognition of credit losses over time, which is inconsistent with how credit losses emerge, how credit risk is managed and how credit loss forecasts are derived. Creditors and investors in debt securities are exposed to volatility due to credit risk of these assets. To be useful, transparent, and provide predictive value, we believe the financial statements should reflect this volatility.

Further, the TPA will present new challenges to preparers. The most significant of which relates to the mandate to calculate the weighted average total expected life, which requires entities to incorporate prepayment estimates in the measurement of impairment. As prepayment speed assumptions are not readily available and often require complex models, incorporation of such assumptions may prove to be very challenging for smaller and/or potentially less sophisticated organizations.

We believe that these factors, among others, will impair the ability of financial statement users to discern performance between entities.

Refer to the sections titled *"Higher-of Concept for the Good Book"* and *"Good Book - Time-Proportional Approach"* in the body of our comment letter above for further discussion on this topic.

Also refer to the section titled "**Our Recommended Approach"** in the body of our comment letter above for discussion on how we would modify the proposed approach.

Question 6 – Is the proposed requirement to differentiate between the two groups (ie 'good book' and 'bad book') for the purpose of determining the impairment allowance clearly described? If not, how could it be described more clearly?

Question 7 – Is the proposed requirement to differentiate between the two groups (ie 'good book' and 'bad book') for the purpose of determining the impairment allowance operational and/or auditable? If not, how could it be made more operational and/or auditable?

Question 8 – Do you agree with the proposed requirement to differentiate between the two groups (ie 'good book' and 'bad book') for the purpose of determining the impairment allowance? If not, what requirement would you propose and why?

Responses to Questions 6, 7 and 8: No. We do not believe the concept of determining a good book and a bad book is operational for all classes of financial assets. For homogeneous loans, such as residential mortgage loans, we do not believe the proposed principle for reclassification between the good book and bad book (i.e., the point at which your credit risk management objective changes) is clearly defined or operational. We believe that a single bright line for making this determination, such as a delinquency threshold, is insufficient as there are other incrementally indicative factors (apart from delinquency status) that are paramount to distinguishing the point at which an entity's credit risk management objective changes for residential mortgage loans. We believe that creating, maintaining, and applying an appropriate, multi-dimensional matrix that captures many judgmental factors will not only add burdens to preparers, it will also be subject to challenge and scrutiny by auditors and regulators. Additionally, the lack of clarity in the definition of the principle for classification in the good book vs. the bad book may have the unintended consequence of auditors and regulators establishing practice through guidelines that are essentially bright lines to drive consistent application and improve auditability. Additionally, we do not understand how the good book vs. bad book classification would be applied to investment securities.

Further, to comply with the IASB's proposed disclosure requirements, determining the appropriate amounts to reclassify upon transfers between the good and bad book along with the related "re-estimation" process for the good and bad books would require running the various impairment models (i.e., ELFF, TPA, and LEL) multiple times. These additional model runs will significantly increase the operational complexity of applying the proposed impairment model.

Refer to the sections titled *"Good Book vs. Bad Book Determination"* and *"Reclassifications and Recalculations of Reserves upon Transfers between Books"* in the body of our comment letter above for further discussion on this topic.

Minimum impairment allowance amount

Question 9 – The boards are seeking comment with respect to the minimum allowance amount (floor) that would be required under this proposed model. Specifically, on the following issues:

(a) Do you agree with the proposal to require a floor for the impairment allowance related to the 'good book'? Why or why not?

(b) Alternatively, do you believe that an entity should be required to invoke a floor for the impairment allowance related to the 'good book' only in circumstances in which there is evidence of an early loss pattern?

(c) If you agree with a proposed minimum allowance amount, do you further agree that it should be determined on the basis of losses expected to occur within the foreseeable future (and no less than twelve months)? Why or why not? If you disagree, how would you prefer the minimum allowance to be determined and why?

(d) For the foreseeable future, would the period considered in developing the expected loss estimate change on the basis of changes in economic conditions?

(e) Do you believe that the foreseeable future period (for purposes of a credit impairment model) is typically a period greater than twelve months? Why or why not? Please provide data to support your response, including details of particular portfolios for which you believe this will be the case.

(f) If you agree that the foreseeable future is typically a period greater than twelve months, in order to facilitate comparability, do you believe that a 'ceiling' should be established for determining the amount of credit impairment to be recognized under the 'floor' requirement (for example, no more than three years after an entity's reporting date)? If so, please provide data and/or reasons to support your response.

Response: As drafted**,** we do not believe the foreseeable future is clearly defined in the Supplemental Document. As currently described, there could be a wide range of interpretation of the foreseeable future and it could change significantly in different economic conditions. To help clarify how foreseeable future should be applied, we recommend the Boards provide additional guidance around the definition of the foreseeable future with enough specificity to eliminate the need for the bright-line floor and ceiling. Refer to the section titled *"Good Book - Expected Credit Losses for the Foreseeable Future Approach"* in the body of our comment letter above for further discussion on this topic.

Question 10 – Do you believe that the floor will typically be equal to or higher than the amount calculated in accordance with paragraph 2(a)(i)? Please provide data and/or reasons to support your response, including details of particular portfolios for which you believe this will be the case.

Response: For mortgage loans, we believe the ELFF approach (i.e., paragraph 2(a)(ii)) will always be higher than the amount calculated in accordance with the TPA (i.e., paragraph 2(a)(i)). Refer to the section titled *"Good Book – Time-Proportional Approach"* in the body of our comment letter above for further discussion on this topic.

Flexibility related to using discounted amounts

Question 11 – The boards are seeking comment with respect to the flexibility related to using discounted amounts. Specifically, on the following issues:

(a) Do you agree with the flexibility permitted to use either a discounted or undiscounted estimate when applying the proposed approach described in paragraph B8(a)? Why or why not?

(b) Do you agree with permitting flexibility in the selection of a discount rate when using a discounted expected loss amount? Why or why not?

Response: We do not agree with the flexibility permitted to use either a discounted or undiscounted estimate or permitting flexibility in the selection of a discount rate. We do not believe that general flexibility in having an option to discount or not (e.g., under the TPA) or to choose your own discount rate (e.g., within the range of risk-free rate to effective interest rate) should be permitted as those options would reduce comparability between entities. Refer to the section titled *"Discounting"* in the body of our comment letter above for further discussion on this topic.

Approaches developed by the IASB and FASB separately

Question 12 – Would you prefer the IASB's approach for open portfolios of financial assets measured at amortized cost to the common proposal in this document? Why or why not? If you would not prefer this specific approach, do you prefer the general concept of the IASB's approach (ie to recognize expected credit losses over the life of the assets)? Why or why not?

Question 13 – Would you prefer the FASB's approach for assets in the scope of this document to the common proposal in this document? Why or why not? If you would not prefer this specific approach, do you prefer the general concept of the FASB's approach (ie to recognize currently credit losses expected to occur in the foreseeable future)? Why or why not?

Response to Questions 12 and 13: We do not prefer either the IASB's approach or the FASB's approach to the common proposal in the Supplemental Document. Instead, we would like to offer an alternative approach, which combines certain aspects of both the IASB and FASB's approaches. Refer to the section titled "**Our Recommended Approach"** in the body of our comment letter above for discussion on how we would modify the proposed approach to combine aspects of both the IASB and FASB's approaches.