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Corporate Headquarters
8100 Jones Branch Drive
McLean, VA 22102

2012-210
Comment Letter No. 19
Tel: (703) 714-2500
www.FreddieMac.com

October 1, 2012

Ms. Susan M. Cospers
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Via email to director@fasb.org

Reference: File Reference No. 2012-210, Proposed Accounting Standards Update, *The Liquidation Basis of Accounting*

Dear Sir or Madame:

Freddie Mac appreciates the opportunity to comment on the Exposure Draft for the proposed Accounting Standards Update (“ASU”) of Topic 205, *The Liquidation Basis of Accounting* (the “proposed Update”).

We support the Board’s efforts to provide guidance that clarifies when an entity should apply the liquidation basis of accounting and to provide principles for the measurement of assets and liabilities under the liquidation basis of accounting as well as any required disclosures. While we agree with the general measurement approach in the proposed Update, we believe that certain aspects should be clarified further in order to drive consistent application and provide the most meaningful information to users of financial statements. Also, we believe that certain disclosure requirements in the proposed Update should be reassessed to ease the operational burden for preparers while still providing useful information to users.

Along with Freddie Mac’s responses to each of the individual questions posed by the Board in the proposed Update, Appendix A contains our recommendations to enhance the measurement and disclosure requirements of the proposed Update.

* * * * *

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 comment on the proposed Update. If you have any questions about our comments, please contact Timothy Kviz (703-714-3800).

Sincerely,

A handwritten signature in black ink that reads "Timothy Kviz". The signature is written in a cursive, slightly slanted style.

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 A

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

Question 1: The proposed guidance would require an entity to prepare its financial statements using the liquidation basis of accounting when liquidation is imminent, as defined in the proposed guidance. Is the proposed guidance about when an entity should apply the liquidation basis of accounting appropriate and operational? If not, why?

Response: Yes, we believe that the proposed guidance about when an entity should apply the liquidation basis of accounting is appropriate and operational. We believe that the application of the liquidation basis of accounting should be reserved for a limited number of circumstances and believe that the provisions of the proposed Update appropriately capture those circumstances.

Question 2: The proposed guidance includes a principle for measuring assets and liabilities, as well as related items of income and expense, using the liquidation basis of accounting. The proposed guidance would require supplemental disclosures about the methods and assumptions used in arriving at those measurements. This guidance is intentionally nonprescriptive in light of the specialized nature of liquidation basis financial statements and the impracticability of providing prescriptive guidance for the myriad of circumstances to which it might apply. Is the proposed guidance on how to prepare financial statements using the liquidation basis sufficient and operational? If not, why?

Response: No. We agree with the proposed principle for measuring assets and liabilities (i.e., reflect estimated consideration expected to be collected or paid). However, we believe that the proposed guidance related to the treatment of disposal costs should be clarified and the proposed guidance related to disclosures should be reassessed.

We believe the Board should provide guidance to clarify either the definition of “estimated costs to dispose” or the types of disposal costs expected to be separately aggregated and presented on the balance sheet (as proposed in ASC 205-30-30-2). The proposed Update indicates that all estimated costs to dispose should be separately aggregated and presented; however, in our view, entities may apply this guidance differently depending on their own interpretations of the guidance and the types of assets and liabilities that are being measured. For example, ASC 360-10-35-38 (*Property, Plant and Equipment > Overall > Subsequent Measurement*) requires that long-lived assets classified as held for sale be carried at the lower of cost or fair value, less the estimated costs to sell the asset. It is unclear how estimated costs to sell that are included in the measurement of assets under existing U.S. GAAP should be applied under the proposed Update. Additionally, it is not clear whether block or volume discounts should be included in the measurement of an asset, or whether such discounts should be separately aggregated as a cost to dispose of an asset.

We recommend that the Board consider leveraging the guidance contained in ASC 360-10-35-38 that requires “disposal costs” that are incremental direct costs of expected liquidation

transactions to be part of the measurement of the asset or liability itself. Indirect, ancillary and overhead types of “disposal costs” could be aggregated and presented separately as described in the proposed Update.

If the Board determines that the proposed measurement guidance is sufficient, we would recommend that the disclosures include a requirement for an entity to qualitatively describe the types of disposal costs that have been aggregated and presented separately versus those that have been included in the measurement of its assets and liabilities. Such a disclosure requirement would provide users with information about the judgments entities have made in determining what are costs to dispose as contemplated by the proposed Update versus costs that are included in the measurement of an asset or liability.

We believe that the Board should reassess the requirement to include all of the other disclosure required by generally accepted accounting principles in the United States (“U.S. GAAP”) when an entity is applying the liquidation basis of accounting. Requiring other disclosures called for in U.S. GAAP in addition to the application of the liquidation basis of accounting and related disclosures described in the proposed Update will create an operational burden for preparers while providing little to no benefit to users for certain types of disclosures required by other U.S. GAAP. Preparers will need to maintain two sets of financial records following different measurement attributes (e.g., one in compliance with existing U.S. GAAP, and another using the liquidation basis of accounting described in the proposed Update). This will be operationally complex, extremely costly, and would place undue burden on organizations that are in the process of liquidation.

The following are a few examples of other disclosures required by U.S. GAAP that we do not believe would be relevant or meaningful for organizations applying the liquidation basis of accounting:

- Summary of significant accounting policies (i.e., for accounting policies not directly relevant to the application of the liquidation basis of accounting);
- Investment securities classified as available-for-sale – disclosures about unrealized gains and losses, temporary vs. other-than-temporary, contractual maturities of debt securities, etc.;
- Loans and finance receivable – disclosures about the allowance for credit losses, credit quality indicators, and troubled debt restructurings;
- Debt – contractual maturities, weighted average effective rate;
- Derivatives – certain hedge accounting disclosures;
- Income taxes – reconciliation of statutory effective tax rate, components of deferred tax assets;
- Segment reporting;
- Earnings per share;
- Concentrations of credit risk; and
- Fair value - evaluating levels in the fair value hierarchy, tracking transfers between levels, rolling forward items classified as level 3 in the fair value hierarchy, gathering

information disaggregated by class about valuation methodologies and gathering information disaggregated by class about key inputs for all level 3 items, etc.

The objective of financial reporting is to provide financial information that is useful for making investment and credit decisions. We believe that, if an entity becomes subject to the liquidation basis of accounting, many of the other disclosures required by existing U.S. GAAP would not provide information that would be useful to existing or potential investors or creditors for making decisions about providing resources to the entity. As a result, we do not believe all disclosures required by other U.S. GAAP should be required when applying the liquidation basis of accounting. We believe the Board should either limit disclosures to those described in the proposed Update for the application of the liquidation basis of accounting, or we recommend that the Board articulate a principle for the types of other U.S. GAAP disclosures that should be provided for an entity applying the liquidation basis of accounting.

Question 3: The proposed guidance would apply to all entities that prepare financial statements in accordance with U.S. GAAP. Should the proposed guidance differ for any entities (for example, investment companies) whose primary measurement attribute is fair value? If so, why?

Response: We believe that the guidance should be the same for all entities. We believe that providing a scope exception for entities in certain industries would be counterintuitive to the fundamental purpose of the liquidation basis of accounting, which the Board articulates in paragraph BC9 of the *Basis for Conclusions* of the proposed Update.

Question 4: The proposed guidance would apply to a limited-life entity when significant management activities are limited to those necessary to carry out a plan for liquidation other than that which was specified in the entity's governing documents. Indicators have been provided to help an entity determine whether a plan for liquidation differs from that which was specified in the governing documents. Do you agree with the proposed guidance about when a limited-life entity should use the liquidation basis of accounting? If not, why?

Response: We agree with the proposed guidance about when a limited-life entity should apply the liquidation basis of accounting.

Question 5: The proposed guidance would apply to public and nonpublic entities (that is, private companies and not-for-profit organizations). Should any of the proposed amendments be different for nonpublic entities? If so, please identify those proposed amendments and describe how and why you think they should be different.

Response: Reiterating our Response to Question 3 above, we believe that the guidance should be the same for all entities. We believe that providing a scope exception for certain types of entities such as private companies and not-for-profits would be counterintuitive to the fundamental purpose of the liquidation basis of accounting, which the Board articulates in paragraph BC9 of the *Basis for Conclusions* of the proposed Update.