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March 29, 2013

Ms. Susan Cosper
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. 2013-210, Proposed Accounting Standards Update, *Effective Control for Transfers with Forward Agreements to Repurchase Assets and Accounting for Repurchase Financings*

Dear Ms. Cosper:

Freddie Mac appreciates the opportunity to comment on the Exposure Draft for the proposed Accounting Standards Update ("ASU") of Topic 860, *Effective Control for Transfers with Forward Agreements to Repurchase Assets and Accounting for Repurchase Financings* (the "proposed Update").

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, which are backed by mortgage loans originated by our mortgage sellers/servicers.

Freddie Mac enters into repurchase agreements and dollar roll transactions for short-term funding and other purposes. As of December 31, 2012, we had approximately $37 billion of securities purchased under agreements to resell. We entered into approximately $29 billion of dollar roll transactions in 2012.

We support the Board's efforts to improve the accounting and disclosure of repurchase agreements, repurchase financings and similar transactions. However, rather than proposing rules-based exceptions for what is intended to be a very narrow scope of transactions, we believe the Board should consider a broader project to reassessment of the overall derecognition model. We have concerns that the proposed Update could result in economically similar transactions being accounted for differently, and that the proposed Update could create structuring opportunities.

Appendix A includes Freddie Mac's responses to the individual questions posed by the Board in the proposed Update.

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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 our 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,

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 Principle Accounting Officer
Mr. Nick Satriano, Chief Accountant, Federal Housing Finance Agency

Appendix A

This Appendix includes Freddie Mac's responses to the questions raised by the Board in the proposed Update.

Question 1: This proposed Update would amend the effective control guidance in paragraphs 860-10-40-5(c)(1) and 860-10-40-24 to require that transactions that involve a transfer of a financial asset with an agreement that both entitles and obligates a transferor to repurchase or redeem the transferred asset at the maturity of the transferred financial asset would maintain the transferor's effective control. Therefore, those transactions would be accounted for as a secured borrowing. Do these proposed amendments represent an improvement in financial reporting?

Response: No. We do not believe the proposed amendments represent an improvement in financial reporting. By requiring secured borrowing treatment for repo to maturity transactions, a transferor would recognize financial assets it does not control along with liabilities that will never require cash or other assets to settle.

Under the proposed Update, two economically similar transactions could receive different accounting treatment, as acknowledged by the Board in its Basis for Conclusions. For example, a repurchase agreement at maturity may be economically equivalent to a transfer of financial assets coupled with a total return swap that was contemporaneously entered into. However, under the proposed Update, the repurchase at maturity transaction would be accounted for as a secured borrowing, while the transfer and swap would be accounted for as a sale with the recognition of a derivative.

As another example, a transfer of a financial asset coupled with a credit guarantee is economically equivalent to a repo to maturity transaction. Under the proposed Update, the transferor in a repo to maturity transaction would continue to recognize the asset and recognize a corresponding liability for the amount of cash received upon the transfer. At maturity, the transferor would eliminate the transferred asset, extinguish the liability, and recognize the cost of the transaction in the income statement. However, a transfer of the very same financial asset coupled with a credit guarantee would be accounted for as a sale and a guarantee that would be accounted for either as a derivative in accordance with ASC 815 *Derivatives and Hedging*, or as a guarantee in accordance with ASC 460 *Guarantees*, depending on the terms of the guarantee. Under this scenario, the transferor de-recognizes the transferred asset, recognizes the cash received, and recognizes the derivative or guarantee at fair value. If the guarantee is accounted for as a derivative, the changes in fair value are recognized in earnings over the life of the repo to maturity transaction (which would essentially be time value or the cost of the transaction). If the guarantee is accounted for as a guarantee obligation, the guarantee would be amortized into earnings as the guarantor is released from risk under the guarantee (which could be over the life of the repo to maturity transaction using the effective interest method, which would produce a result similar to the accounting if the guarantee were accounted for as a derivative). A repo to maturity and a transfer of a financial asset coupled with a credit guarantee or a total return swap

are economically equivalent transactions that would produce different accounting results. We believe this has the potential to produce confusing financial results, and provides opportunities for accounting arbitrage through structuring.

We do not believe this is an improvement to the current accounting treatment applied to repo to maturity transactions. We believe that accounting for the transfer as a sale with recognition of a related forward purchase derivative is a better presentation of the economics of the transaction, and is more likely to produce consistent application across different enterprises.

In applying the control model for transfers of financial assets, a transferor should not account for a transfer as a sale if the transferor maintains effective control over those financial assets. Assuming all other sales criteria are met, it is difficult to reason that a transferor maintains effective control over initially transferred assets since it does not have access to the transferred assets, does not benefit from ownership of the financial asset during the term of the repurchase agreement (e.g., does not receive cash flows related to the transferred financial asset), and does not have the ability to direct the transferee's use of the asset.

Question 2: Do you agree with the limited amendment of the condition for derecognition related to effective control in paragraphs 860-10-40-5(c) and 860-10-40-24? That is, do you agree with the application of secured borrowing accounting to the transactions described in Question 1 and not to other transactions resulting in similar risks and rewards for the transferor (for example, regardless of the form of settlement or whether the settlement date of the repurchase agreement is before, on, or after the maturity date of the transferred financial assets)? If not, what approach for assessing derecognition for transactions that involve transfers of financial assets with agreements that entitle and obligate the transferor to repurchase or redeem the transferred assets would be an improvement to the proposed approach?

Response: No. We do not agree that the application of secured borrowing accounting should be determined solely based on the timing of settlement and/or whether the settlement is in cash. Specifically, we do not agree that secured borrowing accounting should be required for repurchase transactions that settle at maturity, as noted in our response to Question 1. Additionally, repurchase agreements that settle in cash (whether before or at maturity) should not be treated as secured borrowings because cash is not substantially the same asset as the financial asset initially transferred, even if it is the equivalent value of the financial asset at the repurchase date.

Prior to adoption of the current financial components and control accounting model for transfers of financial assets, transfers of financial assets were evaluated under a risks and rewards approach. The risk and rewards approach was replaced, due to operational concerns and the subjective nature of the assessment. Since the financial components approach was adopted, markets have only increased in complexity, which we believe would only further complicate the application of a risks and rewards model to transfers of financial assets. As a result, we do not support a reintroduction of a risk and rewards model, even if it is only added as an overlay to the

financial components approach. This questions the conceptual merit of the current accounting guidance for derecognition of financial assets and whether the broader accounting model for derecognition (and perhaps consolidation) should be revisited.

The current model requires secured borrowing accounting if a transferor maintains control over *specific* financial assets (those initially transferred). By expanding the requirements to transactions that provide the transferor with similar risks and rewards, the assessment of control will change considerably. Instead of analyzing a transferor's interaction with specific assets, entities would be performing a risks and rewards assessment that is much more subjective and prone to diversity in practice.

There appears to be a premise in the Basis for Conclusions that secured borrowing accounting is "better" than sales accounting. We believe that secured borrowing accounting should only be applicable to repurchase agreements when the transferor maintains effective control over the assets that were initially transferred. Requiring secured borrowing accounting for transactions other than these would result in an overstatement of both assets and liabilities. We believe that the current control model to require secured borrowing accounting for repurchase agreements when the transferor maintains effective control is an improvement over the risks and rewards approach.

Question 3: This proposed Update would require that an initial transfer and a repurchase agreement that relates to a previously transferred financial asset between the same counterparties that is entered into contemporaneously with, or in contemplation of, the initial transfer (a repurchase financing) be accounted for separately. Would separate accounting for the initial transfer and repurchase financing reflect the economics of those agreements? Do these proposed amendments represent an improvement in financial reporting?

Response: No. We do not believe that separate accounting for the initial transfer and repurchase financing entered into contemporaneously with, or in contemplation of, the initial transfer would better reflect the economics of the agreements. The Board stated that one of the concerns with the current guidance is the presumption that the transactions are linked, which resulted in the transactions being accounted for in most cases as a forward agreement under ASC 815. The Board believed this resulted in the transferee not recognizing financial assets it should have recognized.

We do not agree with the Board's rationale to require separate accounting, because even though the transferee would not recognize the financial asset initially transferred in a repurchase financing, the economics of the transaction would be reflected by both the transferor and transferee by recognition of a derivative at fair value for the forward repurchase agreement.

By requiring the transactions to be accounted for separately, the transferee would recognize a financial asset that it does not control along with a corresponding liability that is equal to cash received at the initial transfer. The liability, which actually does not represent an amount the transferee would be required to pay, would be relieved when the asset is repurchased. As noted

in our response to Question 1, secured borrowing accounting would result in an overstatement of both assets and liabilities on the balance sheet of the transferee. Assuming the transactions are linked, recording a derivative representing the right or obligation to repurchase specific transferred assets results in a presentation that better reflects the risks and economics of the combined transactions.

Additionally, we do not believe the scope for "linked" transactions (i.e., an agreement being entered into contemporaneously or in contemplation of an initial transfer of a financial asset) in the proposed Update provides sufficient clarity. We believe the scope can be interpreted to capture a wide range of legal agreements or "linked" transactions. Based on the Basis for Conclusions, it is unclear whether this was the intention of the Board. On the other hand, we observe that the proposed Update (ASC 860-10-40-24) refers to "an agreement." We believe this could be interpreted to be so narrow as to only capture transfers and an agreement to repurchase documented in a single legal agreement rather than a set of transactions that could be "linked".

Question 4: The Board affirmed that, consistent with existing guidance, effective control would be maintained by a transferor if the transferee returns a financial asset that is substantially the same as the initially transferred financial asset. Should the return of financial assets that are substantially the same maintain the transferor's effective control over transferred financial assets? Why or why not?

Response: Yes. We believe an agreement to return substantially the same assets should result in the transferor maintaining effective control over the transferred financial assets. We believe the characteristics specified in ASC 860-10-40-24 for a financial asset to be considered substantially the same are sufficiently narrow and adhere to the spirit of the guidance – that the transferor maintains effective control if substantially the same assets are to be repurchased. As stated in our response to Question 2, the return of cash is not the same or substantially the same as the financial asset initially transferred.

Question 5: The Board decided that the characteristics that must be satisfied for a financial asset to be substantially the same in paragraph 860-10-40-24A should result in identifying those transactions in which a transferor is in economically the equivalent position with the return of a substantially-the-same asset compared with the return of the identical asset. Do the proposed amendments to the substantially-the-same characteristics help clarify how those characteristics should be applied? If not, what additional clarifications are needed? Does the implementation guidance related to the substantially-the-same characteristics in paragraph 860-10-55-35 provide appropriate clarifications related to the characteristics and their application? Is the implementation guidance operable? If not, what additional guidance is needed?

Response: No. The proposed amendments to the substantially the same characteristics have the potential to cause confusion. As noted in our response to Question 2, the risks and rewards model was previously replaced due to operational concerns and the subjective nature of the assessment. We believe that markets have become more innovative and complex such that a

risks and rewards model would be even more difficult to apply consistently than when it was replaced in the 1990's.

We believe the characteristics that must be met for a financial asset to be substantially the same as the transferred asset are sufficiently narrow to identify when a repurchase agreement should be accounted for as a secured borrowing.

We do not believe the implementation guidance is operable. For example, performing assessments to determine "economic equivalency" would be burdensome. This would require changes to systems and control processes, among other things. Repo to maturity transactions have been accounted for as sales because the asset returned (i.e., cash) is not substantially the same as the transferred asset (e.g., an investment security). We do not believe the proposed amendment is clear as to why the return of cash would be substantially the same as the transferred investment security, other than because the proposed guidance reaches that conclusion. We do not believe this is a principle we could reasonably explain or apply in other circumstances.

Question 6: The Board decided that for transfers with agreements that both entitle and obligate the transferor to repurchase transferred financial assets that maintain a transferor's effective control and are accounted for as secured borrowings, the transferor should disclose the gross amount of the total borrowing disaggregated on the basis of the class of financial assets pledged as collateral. Would this proposed disclosure provide decision-useful information? If not, what disclosures, if any, about these transactions should be required and why?

Response: We believe the disclosures required by the proposed Update will de duplicative of those required by ASU 2011-11, *Disclosures about Offsetting Assets and Liabilities*. ASU 2011-11, which became effective on January 1, 2013, requires disclosure of the gross and net amounts by type of financial instrument or counterparty for certain financial instruments, including sale and repurchase agreements and reverse sale and repurchase agreements.

We believe the disclosures required by ASU 2011-11 are adequate and that additional disaggregation based on class of financial assets pledged would not provide decision-useful information. The Board noted in its Basis for Conclusions for ASU 2011-11 that the related Exposure Draft proposed disaggregation by class of financial instrument. However, many preparers responded that this disclosure would be too burdensome from a cost-benefit perspective. Instead, the final disclosure requirements of ASU 2011-11 allowed preparers the flexibility to choose how they would disaggregate the presentation (e.g., by type of financial instrument or by counterparty). There have been no new developments that would alter the rationale for disclosures required by under ASU 2011-11.

Question 7: The Board decided that for transfers with agreements that both entitle and obligate a transferor to repurchase transferred financial assets that are accounted for as sales and forward repurchase agreements solely because the asset to be reacquired is not

substantially the same as the initially transferred asset, the transferor should disclose the carrying amount of assets derecognized during the reporting period. Would this proposed disclosure provide decision-useful information? If so, should the scope of this proposed disclosure requirement be expanded to explicitly include all transfers of financial assets with agreements to repurchase the transferred assets that are accounted for as sale transactions? What additional information about those transactions, if any, should be disclosed?

Response: We believe that disclosing the carrying amount of assets that were derecognized for all repurchase agreements that were accounted for as sales with a forward purchase commitment may provide decision-useful information, especially in assessing liquidity needs. However, these proposed disclosures would show an incomplete view of an entity's liquidity needs. We do not support a piecemeal approach to enhancing the disclosures. We recommend that enhanced disclosures addressing an enterprise's liquidity should be addressed as part of the Board's comprehensive update on *Disclosures about Liquidity and Interest Rate Risk.*

Further, we note that in March 2010, the SEC sent a "Dear CFO" letter to certain public companies requesting they provide information on the amount of repurchase agreements that qualified for sale accounting, a description of differences in transaction terms that resulted in a transaction qualifying for sale treatment versus collateralized financings, and detailed analysis supporting use of sales accounting for repurchase agreements. While these disclosures were not requested of all public entities and are not applicable to non-public entities, we believe such disclosures could be used as a basis for the broader disclosure project addressing liquidity risk.

Additionally, in September 2010, the SEC issued interpretive guidance on liquidity to reiterate that disclosure of known trends, demands, commitments, events or uncertainties that will result in, or that are reasonably likely to result in, changes to a registrant's liquidity in any material way is required. In addition, this guidance reiterated that, if the registrant's financial statements do not adequately convey the registrant's financing arrangements during the period, or the impact of those arrangements on liquidity, because of a known trend, demand, commitment, event or uncertainty, additional narrative disclosure should be considered and may be required to enable an understanding of the amounts depicted in the financial statements. Also, in September 2010, the SEC issued a proposed rule to codify, in Regulation S-K, the provisions for disclosure of short-term borrowings that are currently applicable to bank holding companies in accordance with the disclosure guidance set forth in Industry Guide 3, Statistical Disclosure by Bank Holding Companies. While these disclosures are not applicable to non-public entities, we believe such disclosures could also contribute to the basis for the broader disclosure project addressing liquidity risk.

Question 8: Do you foresee any significant operability or auditing issues in complying with the proposed disclosures?

Response: We do not foresee operational issues in disclosing the carrying amount of assets derecognized under repurchase agreements. However, we do foresee operational issues with disclosing the gross amount of borrowings by class of financial asset pledged as collateral for

secured borrowing transactions. Our accounting systems do not currently capture this information. We do not manage our business using this type of disaggregation, so systems changes would be required to produce this disclosure. Given that information disaggregated by class of financial asset is not used by management, we believe such a presentation would be costly, and would introduce unnecessary operational complexity and risk to comply with a disclosure requirement. Additionally, since management does not use information disaggregated by class of financial asset to manage the business, we do not believe the cost of producing such a disclosure would justify the perceived benefits for users.

Question 9: Do you agree with the transition provisions in this proposed Update? If not, why?

Response: We believe the proposed Update, if adopted, should be adopted prospectively for all repurchase agreements, including repurchase agreements that settle at maturity and repurchase financings. The Board's rationale for requiring retrospective application for repo to maturity transactions is due to the potential long-term nature of these contracts. However, we understand that these contracts are generally entered into to manage relatively short-term liquidity needs.

Question 10: Should early adoption be permitted? If not, why? Should this be the case for both public entities and nonpublic entities?

Response: We do not believe early adoption should be permitted because it would impair comparability.

Question 11: Should the effective date be the same for both public entities and nonpublic entities? If not, why?

Response: Yes, we believe the effective date should be the same for both public and non-public entities.