September 2, 2010

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

Via email to director@fasb.org

Reference: File Reference No. 1840-100, Proposed Accounting Standards Update, Disclosures of Certain Loss Contingencies (Topic 450)

Dear Mr. Golden:

Freddie Mac appreciates the opportunity to comment on the Exposure Draft for the proposed Accounting Standards Update (“ASU”) of Topic 450, Contingencies (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, and investing in mortgages and mortgage-related securities. We hold a significant amount of mortgage loans where we establish an allowance for credit losses. As of June 30, 2010, our consolidated balance sheet reflects over $1.9 trillion of mortgage loans.

We support the Board’s efforts to amend Topic 450, Contingencies with the aim of developing disclosure guidance to enable financial users to understand the nature of the loss contingencies, their potential magnitude and their potential timing (if known).

While we support the Board’s efforts, we have concerns regarding the scope of the Proposed Update. Because the Proposed Update would apply to loss contingencies on our substantial portfolio of mortgage loans, it would have a significant impact on us. In addition, we are concerned that certain requirements included in the Proposed Update may lead to prejudicial consequences to reporting entities. Our concerns about the Proposed Update are discussed in the paragraphs that follow.

Freddie Mac  
Page 1  
File Reference No. 1840-100
Inclusion of asset impairments in the scope of the Proposed Update

Many of the Proposed Update’s requirements appear to be aimed at enhancing disclosures related to legal contingencies rather than asset impairments. The Board’s 2008 Exposure Draft related to loss contingencies excluded loss contingencies recognized as asset impairments from its scope and clarified that such contingencies should continue to be disclosed in accordance with the current guidance on that topic. However, the scope of the Proposed Update does not exclude loss contingencies recognized as asset impairments and thus would apply to asset impairments recognized through the allowance for credit losses and reserves for guarantee losses.

Our primary concern about including asset impairments within the scope of the Proposed Update relates to the tabular reconciliation disclosure requirement. Distinguishing between (i) amounts accrued for new loss contingencies, (ii) changes in amounts accrued for existing loss contingencies and (iii) decreases due to settlements or cash payments provides an operational challenge for Freddie Mac because we have loss contingencies recorded against millions of loans under Topic 450. Because these loss contingencies are recorded against a large number of small balance homogeneous loans that are measured collectively for impairment, it would be extremely difficult for us to present that tabular reconciliation distinguishing between new loss contingencies and changes to existing loss contingencies. Our preliminary assessment is that implementing this aspect of the Proposed Update would require significant cost and effort to make the necessary modifications to our systems, processes, procedures and controls. Other reporting entities with sizeable loan portfolios may also experience significant costs to implement the tabular reconciliation requirement of the Proposed Update. Moreover, in our view, the resulting disclosures under the Proposed Update regarding asset impairments would not be meaningful to users of our financial statements as it only shows a portion of our loan impairments (e.g., impairments recorded under ASC 310-10 and 310-30 would not be included) and its objective overlaps with the recently issued Accounting Standards Update 2010-20, Disclosures about Credit Quality for Financing Receivables and the Allowance for Credit Losses, (“ASU 2010-20”).

ASU 2010-20 requires an entity to disclose the activity in its allowance for credit losses (which includes financing receivables measured for impairment under Topic 450) by portfolio segment. The Proposed Update would require an entity to disclose similar activity in its allowance for credit losses, however only for the portion of the allowance determined under Topic 450. As such, the boundaries between the Proposed Update and ASU 2010-20 appear to overlap. This overlap would necessitate additional implementation cost and effort even though the objectives of and the information to be disclosed under the two standards would be similar for financing receivables.

We encourage the Board to reconsider the scope of the Proposed Update. Specifically, we encourage the Board to include the scope exception for asset impairments that was included in the 2008 Exposure Draft on this topic.
Tabular reconciliation may lead to prejudicial consequences

The Proposed Update requires a tabular reconciliation of recognized loss contingencies and allows preparers to aggregate loss contingencies by class with disclosure of the basis for aggregation. For certain significant litigations, plaintiffs may be able to trace the changes in recognized loss contingencies to a particular litigation through this tabular reconciliation disclosure. The potential ability of plaintiffs to determine such information may result in the following prejudicial consequences for reporting entities: 1) waiver of privilege, as the amount of the accrual is typically predicated on the advice of counsel; and 2) potential tactical advantages to plaintiffs in settlement negotiations by revealing a probable and reasonably estimated loss amount. We encourage the Board to eliminate any disclosure requirements that may result in such negative impact to reporting entities.

Disclosure requirements related to insurance recoveries

We have concerns regarding the new requirements relating to insurance recoveries for the following reasons:

- When determining the materiality of loss contingencies to determine whether disclosure is required, the Proposed Update prohibits an entity from considering the possibility of recoveries from insurance and other indemnification arrangements. We understand that the Board’s concern with insurance recoveries is due to their uncertainty and possible litigation with the insurer. We believe this concern is inconsistent with the Proposed Update as loss contingencies are naturally uncertain. In fact, insurance recoveries may, in many cases, be less uncertain than reasonably possible loss contingencies. To the extent that insurance recoveries are at least reasonably possible, we believe they should be included in the disclosure assessment. Otherwise, the Proposed Update may significantly expand the number of loss contingencies subject to disclosure by including within its scope loss contingencies that are not material. Furthermore, the proposed Update would add significant complexity to the preparation and understandability of the information that is presented. We believe that disclosures following those describe in the proposed Update would make it difficult to understand the total exposure to loss and the amount that an entity actual expects to realize. Rather than require a gross presentation, a more appropriate approach would be to caution companies to consider all factors that might impact the timing and amount of the insurance recoveries.

- For all loss contingencies that are at least reasonably possible, information about possible recoveries from insurance is required to be disclosed to the extent it has been provided to the plaintiffs or it is discoverable by either the plaintiff or a regulatory agency. A defendant’s liability coverage is generally subject to discovery and therefore would almost always be required to be disclosed under the Proposed Update. Public disclosure of this information may negatively impact the reporting entity by potentially encouraging others to assert similar claims.
In addition to the concerns articulated in this letter, there are other areas where the qualitative and quantitative disclosure requirements may lead to prejudicial outcomes for reporting entities without providing additional decision-useful information to financial statement users. We recommend that the Board continue working with the American Bar Association to identify and address any potential implications that may unnecessarily result in negative impact to reporting entities.

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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.

Freddie Mac appreciates the opportunity to provide our comments on the Proposed Update. If you have any questions about our comments, please contact Timothy Kviz (703-714-3800).

Sincerely,

[Signature]

Timothy Kviz
Vice President, Accounting Policy

cc: Mr. Charles E. Haldeman, Jr., Chief Executive Officer
    Mr. Ross J. Kari, Executive Vice President - Chief Financial Officer
    Mr. Robert D. Mailloux, Senior Vice President - Corporate Controller, and
    Principal Accounting Officer
    Ms. Wanda DeLeo, Federal Housing Finance Agency