February 4, 2011

Susan M. Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Via email to: director@fasb.org


Dear Ms. Cosper:

Federal National Mortgage Association¹ (Fannie Mae) appreciates the opportunity to comment on the Financial Accounting Standard Board’s (“the FASB” or “the Board”) File Reference No. 1890-100: Discussion Paper – Effective Dates and Transition Methods (“the Discussion Paper”). We are encouraged by the Board’s recognition of the need to help stakeholders manage the pace and cost of changes to financial reporting by prioritizing the major projects that are most in need of improvement and by phasing the publication of Exposure Drafts and related consultations. Consequently, we commend the Board for seeking feedback on the time and effort involved in properly adopting the new accounting and reporting requirements as well as on the implementation timetable, including the sequence of adoption. Our comments on the Discussion Paper are discussed further below.

In general, we support the joint initiatives of the FASB and IASB (the “Boards”) to develop improved and converged financial accounting and reporting standards. We believe that these efforts will be beneficial to investors, preparers and capital market participants around the world. However, we are concerned about the impact that the volume and timing of the proposed standards may have both to the due diligence process and to constituents’ ability to effectively digest and implement the new requirements.

We believe that a substantial amount of time, cost, and effort will be required to implement all the projects within the Discussion Paper. Specifically, the Financial Instruments and Insurance Contracts projects will have the most significant impact to our operations and financial reporting,

¹ Fannie Mae is a government-sponsored enterprise that was chartered by Congress in 1938 to support liquidity, stability and affordability in the secondary mortgage market. Fannie Mae became a stockholder-owned and privately managed corporation by legislation enacted by Congress in 1968. Since September 6, 2008, Fannie Mae has been under conservatorship, with the Federal Housing Finance Agency (“FHFA”) acting as conservator. At September 30, 2010, we had total assets of $3.2 trillion of which $2.9 trillion is made up of our loan portfolio and total liabilities of $3.3 trillion of which $3.0 trillion consist of long-term debt.
as the substantial majority of our assets and liabilities will be within the scope of these standards. In addition, we anticipate that broad changes in the systems and processes used to prepare our financial statements will be necessary to comply with the Financial Statement Presentation standard. While the other projects in the Discussion Paper will have a lesser impact on our operations and financial reporting, the volume and complexity of these projects will also impact the Company’s systems and processes. We believe that the time, cost and effort that will be required to properly implement the projects under the Discussion Paper will approximate, if not exceed, the substantial cost and effort associated with the implementation of Statement of Financial Accounting Standards No. 167, Amendments to FASB Interpretation No. 46(R) (“SFAS 167” or “consolidation standard”). Even though we started very early on our implementation of SFAS 167, it still took us two years to plan and implement the provisions of SFAS 167 and the cost of this implementation effort was in excess of $150 million.

We prefer sequential effective dates whereby the standards become effective in two distinct groups based on the nature of the anticipated impact to the financial statements. The first group (or “Accounting Group”) would include the standards that are primarily expected to impact the recognition and measurement of assets, liabilities, and/or the results of operations (e.g., Accounting for Financial Instruments, Insurance Contracts, Balance Sheet – Offsetting) and would become effective at a minimum of three years from the issuance of the final standards. The second group (or “Reporting Group”) would include all of the projects that are primarily expected to impact financial reporting presentation and disclosure (e.g., Financial Statement Presentation) and would become effective at a minimum of two years after the effective date of the standards in the Accounting Group.

Overall, we support a prospective transition methodology for the Accounting for Financial Instruments, Leases, and Revenue Recognition standards that would require a cumulative effect adjustment in retained earnings for existing instruments, leases, and contracts outstanding at the date of adoption and recording a cumulative effect adjustment in addition to applying the revised guidance to transactions occurring subsequent to the effective date. We believe that retrospective or limited retrospective application for these accounting standards is largely impractical and cost-prohibitive. Specifically, a retrospective adoption would require Fannie Mae to incur additional costs of running parallel systems and processes to capture data and produce estimates prior to the adoption of the Accounting Group standards. Conversely, we believe that in order to ensure comparability, certain financial statement presentation standards (i.e., Reporting Group) should be adopted on a retrospective basis.

We support converged effective dates and transition methods for both the FASB and IASB. While we do not currently prepare our financial statements under IFRS, we believe that it would be best for the FASB and IASB to require the same effective dates and transition methods for their respective standards. We believe that this approach would promote convergence to a single set of accounting standards, lessen the cost of any future transition into IFRS, promote comparability, and increase the decision-usefulness of financial statements. We also urge the Board to reach out to the SEC in their considerations of the timing of implementing new accounting standards so due consideration is given to the impact of the potential adoption of IFRS by companies in the United States.
Appendix 1 to this letter contains our responses to several of the questions asked by the Board. The opinions expressed in this letter are solely those of Fannie Mae and do not purport to represent the views of the Federal Housing Finance Agency as our conservator.

We would like to continue to participate in the public discussions of this issue, and would be pleased to discuss any aspect of our letter with you to provide further assistance in your deliberations on the Discussion Paper. Thank you for considering our views.

Sincerely,

[Signature]

Kirk C. Silva
Vice President and Accounting Policy Group Head
February 4, 2011
Page 4 of 11

Appendix 1: Responses to specific questions raised in the proposed ASU

Q1. Please describe the entity (or the individual) responding to this Discussion Paper

a. Please indicate whether you are primarily a preparer of financial statements, an auditor, or an investor, creditor, or other user of financial statements (such as a regulator). Please also indicate whether you primarily prepare, use, or audit financial information prepared in accordance with U.S. GAAP, IFRSs, or both.

We are an SEC registrant that prepares financial statements on a U.S. GAAP basis with no reporting requirements under IFRS.

b. If you are a preparer of financial statements, please describe your primary business or businesses, their size (in terms of the number of employees or other relevant metric), and whether you have securities registered on a securities exchange.

Fannie Mae is a government-sponsored enterprise that was chartered by Congress in 1938 to support liquidity and affordability in the secondary mortgage market, where existing mortgage-related assets are purchased and sold. Our most significant activities include providing more liquidity by securitizing mortgage loans originated by lenders in the primary mortgage market into Fannie Mae guaranteed mortgage-backed securities, which we refer to as Fannie Mae MBS, and by purchasing mortgage loans and mortgage-related securities in the secondary market for our mortgage portfolio. We acquire funds to purchase mortgage-related assets for our mortgage portfolio by issuing a variety of debt securities in the domestic and international capital markets. We also make other investments that increase the supply of affordable housing. Our securities are currently traded in the over-the-counter market.

At September 30, 2010, we had total assets of $3.2 trillion of which $2.9 trillion is made up of our net mortgage loans and $171.6 million in investment securities. We had total liabilities of $3.2 trillion, which consists of $2.9 trillion in long-term MBS debt, $225.1 billion in short term debt, and $1.6 billion in derivative liabilities. Our guaranty book of business is approximately $3.0 trillion. However, $2.5 trillion relates to loans that were consolidated as of January 1, 2010, upon the adoption of SFAS 167.

e. Please describe the degree to which each of the proposed new standards will likely affect you and the factors driving that effect (for example, preparers of financial statements might explain the frequency or materiality of the transactions to their business and investors might explain the significance of the transactions to the particular industries or sectors they follow).

We have reviewed each of the proposed new standards as a part of our ongoing monitoring process and determined that the following standards are expected to have the most significant impact to us:
February 4, 2011
Page 5 of 11

Accounting for Financial Instruments

Because financial instruments comprise the substantial majority of the assets and liabilities recognized on our balance sheet, the comprehensive accounting changes proposed in the Accounting for Financial Instruments project are expected to impact our Company significantly. Specifically, our mortgage loan portfolio (approximately 18 million mortgage loans) and portfolio of investment securities comprise over 90% of our $3.2 trillion in assets as of September 30, 2010, while short- and long-term debt represent over 99% of our $3.2 trillion in liabilities. These amounts include the assets and liabilities of the MBS trusts we consolidate under ASC 810, Consolidation (formerly SFAS 167), which were $2.7 trillion in loans and $2.4 trillion in debt as of September 30, 2010. Because all of these instruments are within the scope of the project, compliance with the revised guidance will require extensive resources to complete the necessary systems enhancements and process changes.

Insurance Contracts

Our public mission is to provide liquidity and stability in the secondary mortgage market. To achieve this mission, our Single- and Multi-family Credit Guaranty Businesses work with our lender customers to purchase and securitize mortgage loans into Fannie Mae MBS, for which we provide a guaranty of timely payments of principal and interest to investors. Although much of our guaranty activity is eliminated upon consolidation of our MBS trusts, we continue to recognize a guaranty obligation of $747 million as of September 30, 2010, which we accounted for in accordance with ASC 460, Guarantees (formerly FIN 45). Given the complexity associated with recording these obligations and performing the subsequent accounting under the proposed guidance, meaningful model and system enhancements will be necessary to prepare the cash flow and net present value estimates required to implement the proposed guidance.

Balance Sheet – Offsetting

Our principal purpose in using derivatives is to manage our aggregate interest rate risk profile within prescribed risk parameters, which we accomplish through supplementing our issuance of debt securities with derivative instruments to further reduce duration and prepayment risks. As of September 30, 2010, we held asset and liability derivatives with notional amounts of $446.6 billion and $431.3 billion, respectively, and fair values of $29.6 billion and $30.3 billion, respectively, on a gross basis before the application of master netting agreements. Currently, we offset the carrying amounts of derivatives (other than commitments) that are in gain positions and loss positions with the same counterparty, as well as cash collateral receivables and payables associated with derivative positions in master netting arrangements, under the guidance of ASC 210-20, Balance Sheet – Offsetting (formerly FIN 39). Thus, after giving consideration to the effect of offsetting arrangements with the same counterparty and master netting arrangements, we recognized derivative assets (at fair value) of $1.0 billion and derivative liabilities (at fair value) of $1.6 billion in our balance sheet as of September 30, 2010. The revised guidance would significantly impact our presentation of our exposure, as we would no longer be able to present this activity on a net basis, and this change would require modification of the accounting systems used to track this activity.
Financial Statement Presentation

Given the wholesale changes proposed in the Financial Statement Presentation project, we anticipate that broad changes in the systems and processes used to prepare our financial statements will be necessary to comply with the standard. Specifically, major system enhancements will be necessary in order to capture a significant volume of transaction level data needed to prepare the statement of cash flows using the direct method, in addition to re-mapping all of our activity into the specified operating, investing, debt, and equity activity categories for presentation in the statements of financial position and comprehensive income. For example, for the nine months ended September 30, 2010, our net cash provided by investing activities was $374 billion of which $394 billion was related to proceeds from repayment of loans held for investment and our net cash used in financing activities was $334 billion of which $876 billion was attributed to payments to redeem short-term and long-term debt and $1.1 trillion was related to proceeds from issuance of short-term and loan-term debt. Further, our annual and quarterly filings will require extensive revision to ensure internal coherence, particularly in the discussion and analysis of our financial condition and results of operations.

Q2. Focusing only on those proposals that have been published as Exposure Drafts (accounting for financial instruments, other comprehensive income, revenue recognition, and leases):

a. How much time will you need to learn about each proposal, appropriately train personnel, plan for, and implement or otherwise adapt to each the new standard?

Based on the current exposure drafts for accounting for financial instruments, other comprehensive income, revenue recognition and leases, we believe a minimum of three years from the issuance of these exposure drafts to the earliest period presented should be provided to ensure an appropriate implementation of these standards. For example, if these standards were to be issued prior to December 31, 2011, we would need fiscal year 2012, 2013 and 2014 to train our personnel, configure our information systems and design our processes and controls. This would indicate an effective date of January 1, 2015, assuming the FASB is going to require a prospective application of this guidance. However, if retrospective application for all periods presented is required, the effective date for the new guidance would have to be January 1, 2017 in order to present a three-year income statement that is comparative consistent with the SEC’s reporting requirements.

b. What are the types of costs you expect to incur in planning for and adapting to the new requirements and what are the primary drivers of those costs? What is the relative significance of each cost component?

Based on our experience with the adoption of SFAS No. 167, Amendments to FASB Interpretation No. 46(R) (“SFAS 167” or “consolidation standard”), we expect to incur significant costs to implement the new requirements. Specifically, our existing systems and processes supporting our loan portfolio, securities, fair value measurements, interest income recognition, guarantees, and financial reporting will be impacted. The fundamental changes proposed to the current accounting models affected by the new proposed standards will require
our processes and systems to be reconfigured to accommodate the requirements of the new standards. As a result, various expenses will be incurred to perform analyses, train personnel, design and develop systems and controls, and perform systems testing. The key drivers of these costs include:

- **Personnel expenses (i.e., employees, contractor and consultants costs)** – Significant costs will be incurred to hire and train additional resources to work on implementation activities, such as project planning, design and development of systems and controls. The primary drivers for these costs are expected to be increased consulting fees attributed to consultants hired to provide various expertise and to assist with implementation efforts. Additionally, we will have to incur incremental compensation costs for the additional employees that we will need to hire to perform day-to-day accounting as more experienced employees are diverted into implementation activities. Moreover, we will need to supplement these internal resources with contractors as well as incur various training-related expenses. We estimate that these costs would comprise a substantial majority of the total costs that we expect to incur.

- **System design and development costs** – Significant costs will be incurred to reconfigure our existing systems and/or develop new systems, with the primary driver of these expenses being the acquisition of new hardware and software that comply with the new accounting and disclosure requirements. We will also incur incremental expenses related to the customization of our existing systems to comply with the new requirements. As a point of reference, we modified approximately 40 systems in order to comply with the requirements of SFAS 167, and we anticipate that adoption of these standards will impact an even wider array of systems and processes. We estimate that these costs will rank second in significance to the total costs that we expect to incur.

- **Training costs** – We will incur various costs to train employees, senior management, board of directors and other stakeholders to provide them with an understanding of the new requirements and their expected impact to the Company. This training will be more intensive and focused for those employees that perform day-to-day accounting activities.

- **Compliance costs** – Due to the complexity and enormity of the proposed changes, we expect to incur additional compliance-related expenses such as audit fees and costs associated with incremental SOX compliance (e.g., process documentation, control design and testing).

Q4. In the context of a broad implementation plan covering all the new requirements, do you agree with the transition method as proposed for each project? If not, what changes would you recommend and why? In particular, please explain the primary advantages of your recommended changes and their affect on the cost of adapting to the new reporting requirements.
The following table summarizes Fannie Mae’s views on the transition methods currently proposed in the exposure drafts of the standards and Fannie Mae’s proposed methods for transition:

<table>
<thead>
<tr>
<th>FASB Project</th>
<th>Transition Method</th>
<th>Fannie Mae’s View</th>
<th>Fannie Mae’s Proposed Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting for Financial Instruments</td>
<td>Retrospective</td>
<td>Disagree</td>
<td>Prospective*</td>
</tr>
<tr>
<td>Other Comprehensive Income</td>
<td>Retrospective</td>
<td>Agree</td>
<td>Retrospective</td>
</tr>
<tr>
<td>Fair Value Measurement</td>
<td>Limited retrospective</td>
<td>Agree</td>
<td>Limited retrospective</td>
</tr>
<tr>
<td>Revenue Recognition</td>
<td>Retrospective</td>
<td>Disagree</td>
<td>Prospective*</td>
</tr>
<tr>
<td>Leases</td>
<td>Simplified retrospective</td>
<td>Disagree</td>
<td>Prospective*</td>
</tr>
<tr>
<td>Financial Statement Presentation</td>
<td>Retrospective</td>
<td>Agree</td>
<td>Retrospective</td>
</tr>
</tbody>
</table>

*Prospective transition refers to transition via identifying any existing financial instruments, leases, and contracts outstanding at the date of adoption and recording a cumulative effect adjustment in beginning retained earnings at the effective date in addition to applying the revised guidance to transactions occurring subsequent to the effective date.*

Proposed Use of the Prospective Transition Method for Standards which Significantly Impact Recognition, Measurement, and/or Results of Operations

We acknowledge that comparability adds to the decision-usefulness of financial statements. However, we believe the objective of comparability should be carefully considered in the context of the cost and effort that is required to apply a full or limited retrospective transition method, particularly since these methods will require Fannie Mae to maintain two sets of accounting records for the comparative reporting periods.

We urge the Board to consider adopting a prospective transition method for the Accounting for Financial Instruments, Revenue Recognition, and Leases standards. Under this proposal, entities would modify the opening balance sheet to apply the revised guidance to all financial instruments, leases, and contracts that are outstanding on the effective date of the new guidance without having to make adjustments to prior periods presented. The benefit of a prospective transition method is that we would not have to incur the additional costs and effort to run parallel systems to capture data needed to collect and present comparative financial information. These costs savings will be significant to the Company given the complexity and enormity of the proposed standards.
February 4, 2011
Page 9 of 11

Further, retrospective transition methods for these standards may be operationally burdensome and impractical due to the magnitude of the changes being proposed. Moreover, we do not believe that we will be able to access the impracticability exception provided in ASC 250, Accounting Changes and Error Corrections (formerly SFAS 154) because the FASB typically provides specific transition requirements on new accounting standards. As a result, we urge the FASB to adopt transition methods for these standards that are practicable and less onerous to operationalize.

We also believe that allowing prospective transition methods for these standards will likely reduce the required implementation timeline for these new standards by one to two years.


We agree with the Board that a retrospective transition method is appropriate for the Financial Statement Presentation and Other Comprehensive Income standards, as it provides for comparability and enhances the decision-usefulness of financial statements. Because these standards primarily impact our financial statement presentation and disclosure, we believe that given sufficient time from the adoption of the standards which will have a significant impact on recognition and measurement of substantially all of our assets and liabilities (e.g., Accounting for Financial Instruments), we would have the ability to capture and present comparative data. This means that the adoption of these financial statement presentation standards should be at least two years from the adoption of the standards which primarily impact recognition and measurement.

Q5. In thinking about an overall implementation plan covering all of the standards that are the subject of this Discussion Paper:

a. Do you prefer the single date approach or the sequential approach? Why? What are the advantages and disadvantages of your preferred approach? How would your preferred approach minimize the cost of implementation or bring other benefits? Please describe the sources of those benefits (for example, economies of scale, minimizing disruption, or other synergistic benefits).

b. Under a single date approach, what should the mandatory effective date be and why?

c. Under the sequential approach, how should the new standards be sequenced (or grouped) and what should the mandatory effective dates for each group be? Please explain the primary factors that drive your recommended adoption sequence, such as the impact of interdependencies among the new standards.

d. Do you think another approach would be viable and preferable? If so, please describe that approach and its advantages.

Proposed Approach and Effective Date

We would prefer to implement the standards using a sequential effective date approach under which the standard would be segregated into two distinct groups based on the nature of the anticipated impact to the financial statements. The first group (or “Accounting Group”) would
February 4, 2011  
Page 10 of 11

include all of the projects that are primarily expected to impact the recognition and measurement of assets, liabilities, and/or the results of operations – these projects include: Accounting for Financial Instruments; Insurance Contracts; Leases; Revenue Recognition; Fair Value Measurements; Balance Sheet – Offsetting; and Financial Instruments with Characteristics of Equity. The second group (or “Reporting Group”) would include all of the projects that are primarily expected to impact financial reporting presentation and disclosure – these projects include: Financial Statement Presentation and Statement of Comprehensive Income.

As noted in our response to Question 2 above, we believe a minimum of three years from the issuance of the final standards to the earliest comparative period presented should be provided to ensure an appropriate implementation of these standards. As a result, if these standards were to be issued prior to December 31, 2011, for the standards in the Accounting Group we would propose an effective date of January 1, 2015, for prospective application of this guidance or January 1, 2017, in order to present comparative financial statements. We would propose an additional two years be provided to complete subsequent implementation of the standards in the Reporting Group.

Although we do not support a single date approach, if the Board elects a single date approach and all of the standards were issued prior to December 31, 2011, we believe the earliest date that prospective adoption of all standards should be mandatory is January 1, 2017.

**Key Benefits Considered**

We believe that a sequential approach would provide the greatest opportunity to utilize the significant resources required to complete such comprehensive revisions in a prudent manner. Specifically, extensive effort will be necessary to complete the activities associated with implementing these standards, which include: understanding the changes in the guidance, assessing the impact to the company’s systems and processes; and completing and testing the extensive revisions in our accounting and reporting systems and processes. Although our proposed sequential approach may require two sets of system revisions, it will allow for us to focus first on planning and implementing the accounting changes related to recognition and measurement of assets, liabilities, and the results of our operations in an efficient and controlled manner, and then communicating the impact of those standards to our stakeholders in the current financial statement format. Upon implementation of the standards in the Accounting Group, we would then be able to focus on implementing a revised approach to presenting and communicating those results in our financial statements as prescribed by the standards in the Reporting Group in the same efficient and controlled manner.

While we acknowledge that a sequential approach will require a longer timeline for full implementation of all of the proposed standards as compared to a single-date approach, it will also provide more time to engage personnel with the appropriate level of knowledge and skills required to perform the activities associated with implementation and to train additional internal resources. Further, having sufficient time for employees to complete implementation tasks in addition to their current day-to-day business activities mitigates the risk of overextending and burning out those personnel with the expertise needed to complete such a large-scale project. In addition, we have noted that implementation of standards over shorter time horizons tends to require the extensive use of consultant and contractor resources, which are generally more costly
than internal resources. Having a larger pool of appropriately-trained internal resources can result in a meaningful cost savings.

Q8. Should the FASB and IASB require the same effective dates and transition methods for their comparable standards? Why or why not?

We recommend that the Boards require the same effective dates and transition methods for their comparable standards. Having converged effective dates and transition methods will minimize the costs and risks associated with having to implement new standards twice using varying transition methods. In addition to promoting the use of a converged single set of accounting standards, it will lessen the cost of future transition into IFRS, promote comparability and increase the decision-usefulness of financial statements around the globe.