October 17, 2013

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

Re: Proposed Accounting Standards Update (Revised) – Consolidation (Topic 810): Measuring the Financial Liabilities of a Consolidated Collateralized Financing Entity

Reference Number: EITF-12GR

Dear Mr. Golden:

Annaly Capital Management, Inc. (Annaly, the Company, we, our) welcomes the opportunity to comment on the above referenced Proposed Accounting Standards Update (Proposed ASU) issued by the Financial Accounting Standards Board (FASB).

Annaly, owns, manages, and finances a portfolio of real estate related investments and has elected to be taxed as a real estate investment trust (REIT) for federal income tax purposes. Annaly invests in residential mortgage backed securities (RMBS) that are issued or guaranteed by a federally chartered corporation such as Fannie Mae or Freddie Mac, or an agency of the U.S. Government, such as Ginnie Mae as well as commercial loans and commercial mortgage backed securities. Our principal business objective is to generate net income for distribution to our stock holders from our investments.

We support the FASB’s effort to resolve the diversity in practice in accounting for the difference between the fair value of financial assets and the fair value of the financial liabilities of a consolidated collateralized financing entity (CCFE).

We do not support the valuation and disclosure approach of the Proposed ASU, which bases the value of the liabilities on the fair value of the financial assets and the carrying value of the nonfinancial assets because it potentially distorts the economic position of the reporting entity. We support the original measurement approach1 to measure the assets and liabilities of a CCFE based upon the reporting entity’s net economic exposure proposed by the Emerging Issues Task Force (EITF).

Please see our detailed responses to the questions in the Proposed ASU included in the Appendix.

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We appreciate your consideration of our comments. If you have any questions or require clarification, please contact Melanie Pinto at (646) 728-7673 or Jayne Stewart at (212) 696-0100.

Sincerely,

Melanie Pinto
Director of Accounting Policy
Annaly Capital Management, Inc.

Jayne Stewart
Chief Accounting Officer
Annaly Capital Management, Inc.
1: Do you agree with the measurement of the financial liabilities of a consolidated collateralized financing entity as described in paragraph 810-10-30-2A? Do you also agree that a reporting entity that consolidates a collateralized financing entity should no longer be permitted to measure the financial liabilities of the collateralized financing entity using the fair value option of Topic 825 (whether or not the reporting entity elects to apply the measurement guidance under the proposed Update)?

No, we disagree with the measurement approach in the Proposed ASU. We think that the measurement approach originally proposed by the EITF whereby a reporting entity would determine the fair value of their net economic risk more accurately reflects the reporting entity’s interest in a CCFE and provides more decision useful information to the readers of the financial statements. We also believe that the appropriate gross up under the initial proposal would be determined based upon the financial instruments, that is the asset or liabilities, that are most observable for the CCFE. We think this approach is consistent with the principle of applying the hierarchy in accordance with ASC 820, Fair Value Measurement.

Question 2: Do you agree that a reporting entity that previously elected or was required to measure all eligible financial assets and financial liabilities of the consolidated collateralized financing entity at fair value should be required to apply the amendments in this proposed Update to those collateralized financing entities that exist at the date of adoption? Do you also agree that a reporting entity that had not previously measured all eligible financial assets and financial liabilities of the consolidated collateralized financing entity at fair value should be permitted to elect to apply the amendments in this proposed Update to those collateralized financing entities that exist at the date of adoption? Do you agree that a reporting entity that consolidates for the first time a collateralized financing entity should have an option to not apply the amendments in this proposed Update?

We agree that a reporting entity that had not previously measured all eligible financial assets and financial liabilities of the CCFE at fair value should be permitted to apply the original net economic risk exposure approach proposed by the EITF to CCFEs that exist at the date of adoption. A one-time election to measure the financial assets and liabilities of a CCFE upon transition would help to eliminate diversity in practice and would allow these reporting entities to better reflect the economics of their interests in the CCFEs.

Question 3: Should the decision to apply the proposed amendments be an accounting policy decision or a decision to be applied to individual collateralized financing entities? Please explain.

We believe the measurement basis of the consolidated assets and liabilities of a CCFE should be made at the level of the individual CCFE at the date the entity is first consolidated. We believe there may be instances where the use of fair value for the assets and or liabilities of a CCFE does not provide the most relevant and decision useful information to the investor (e.g. transactions where the reporting entity retains a significant beneficial interest and/or neither the assets nor liabilities are expected to have readily determinable fair values.)

Question 4: The proposed amendments require that a reporting entity allocate the calculated value to the individual financial liabilities on a reasonable and consistent basis using a methodology appropriate in
the circumstances. For preparers, is additional allocation guidance necessary? If yes, what methods should be used to allocate the calculated value of the financial liabilities to the individual financial liabilities?

Assuming that the FASB reverts to the original proposal to measure the assets and liabilities based upon the reporting entity’s net economic exposure, we do not think that additional guidance is necessary regarding appropriate methodologies for valuing individual financial assets and liabilities.

Question 5: For users, would disclosures about the method used to allocate the fair value of the financial assets to the individual liabilities and the value of the beneficial interests retained by the reporting entity provide decision-useful information?

We have no comment.

Question 6: Do you agree that the proposed amendments should be applied using a modified retrospective approach, with the option to apply the proposed amendments retrospectively for reporting entities that have previously measured the financial assets and financial liabilities of the collateralized financing entity at fair value? If not, please explain why.

If the FASB reverts to the initial proposal, we agree that the proposed amendments should be applied using a modified retrospective approach, with the option to apply the proposed amendments retrospectively for reporting entities that have previously measured the financial assets and liabilities of the CCFE at fair value. Additionally, if a reporting entity makes a one-time election to measure the financial assets and liabilities of a CCFE at fair value as discussed in Question 2 above, we think the entity should have the option to apply the proposed amendments retrospectively.

Question 7: Do you agree that early adoption of the proposed amendments should be permitted? If not, please explain why.

We agree that early adoption of the proposed amendments should be permitted.

Question 8: The proposed amendments would apply to public and nonpublic entities. Should the proposed amendments be different for nonpublic entities? If so, please describe how and why the requirements should be different.

We have no comment.

Question 9: For preparers, how much time would be needed to implement the proposed amendments?

Assuming the FASB reverts back to the original proposal made by the EITF to determine the value of the assets or liabilities based upon the reporting entity’s net economic exposure and permits entities that had not previously valued the financial assets and liabilities of a CCFE a one-time fair value election, we believe we could adopt the change in a relatively short time frame.
Question 10: For preparers, what costs do you expect to incur as a result of implementing the proposed amendments?
Assuming the FASB reverts back to the original proposal made by the EITF to determine the value of the assets or liabilities based upon the reporting entity's net economic exposure, we do not anticipate significant cost to implement the guidance, but expect some level of increased cost that may not be inconsequential, which is difficult to ascertain at this time.