June 28, 2016

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

Via email to director@fasb.org

Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging  
Issues Task Force)

Dear Ms. Cosper:

Freddie Mac appreciates the opportunity to comment on the Exposure Draft for the proposed  
Accounting Standards Updates of Topic 230, Restricted Cash (the “proposed update”).

Freddie Mac was chartered by Congress in 1970 with a public mission to provide liquidity,  
stability, and affordability to the United States housing market. 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. The updates discussed in  
the proposed ASU will affect Freddie Mac, as we hold significant amounts of restricted cash  
received from consolidated securitization trusts, multifamily borrowers and sponsors, and  
derivative counterparties, and we currently present changes in restricted cash as investing  
activities in the statement of cash flows.

While we support the Board’s efforts to reduce diversity in practice with respect to the  
presentation of changes in restricted cash in the statement of cash flows, we believe the  
proposed update will result in a less transparent view of a reporting entity’s liquidity position.  
Further, although the proposed update will reduce diversity in practice with respect to internal  
transfers between cash and cash equivalents and restricted cash, it does not clearly address the  
presentation of changes in restricted cash due to cash received from external sources. Therefore,  
we believe that diversity in practice will continue to exist.

It is our view that all changes in restricted cash, including internal transfers, should be presented  
in the body of the statement of cash flows and classified according to the nature of or purpose for  
the restrictions. This presentation should be supplemented with additional disclosure that  
requires a reporting entity to discuss the various types of restrictions that exist with respect to its  
cash balances and the associated classification of changes in restricted cash balances in the  
statement of cash flows.

Appendix A includes Freddie Mac’s detailed 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.

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

Sincerely,

[Signature]

Timothy Kviz
Vice President – Accounting Policy and External Financial Reporting

cc: Mr. James G. Mackey, Executive Vice President - Chief Financial Officer
    Mr. Robert D. Mailloux, Senior Vice President – Corporate Controller and Principal Accounting Officer
    Mr. Nick 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 Accounting Standards Update – Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force).

Question 1: Do you agree that the statement of cash flows should explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents? If not, please explain what presentation is more appropriate and why.

Response: No. The purpose of the statement of cash flows is to provide its users with unbiased, objective and relevant information about the sources and uses of cash of an entity and to assess that entity’s ability to meet its obligations. Since cash available for general operations is distinguishable from cash that is restricted as to use or withdrawal, explaining the change during the period in the total of cash, cash equivalents, and restricted cash or restricted cash equivalents, will not provide users with a reporting entity’s true liquidity position and therefore may impair the usefulness of the statement of cash flows. Although an internal transfer of cash between cash and cash equivalents and restricted cash does not represent an actual cash inflow or outflow from the entity, it does represent a change in a reporting entity’s liquidity position and the amount of cash available to meet its other general obligations.

We agree that the proposed update will reduce diversity in practice with respect to the presentation of internal transfers between cash and cash equivalents and restricted cash. However, we do not believe the proposed update clearly addresses the presentation of restricted cash amounts received from external sources. Therefore, we believe that diversity in practice will continue to exist.

We believe that different presentation in the statement of cash flows may be appropriate if the nature of or the purpose for the restriction varies. As a result, we recommend that the Board require that changes in restricted cash be presented in the statement of cash flows according to the nature of or the purpose for the restrictions as either operating, investing, or financing. Additionally, we recommend supplemental disclosure of the various types of restrictions that exist with respect to a reporting entity’s cash balances and the associated classification in the statement of cash flows. We believe this alternative would allow a reporting entity to improve the transparency of its current presentation, while continuing to report its true liquidity position.

Question 2: Do you agree that if the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents at the beginning and end of the period shown on the statement of cash flows cannot be reconciled to the amounts of similarly titled line items on the statement of financial position, an entity should disclose on the face of the statement of cash flows or in the notes to the financial statements, the amounts and line items in which such amounts are reported within the statement of financial position? If not, please explain why that information would not be useful.
Response: Yes. If a reporting entity is required to explain the change during the period in the total of cash and cash equivalents and restricted cash, and in the event the changes cannot be reconciled to the amounts of similarly titled line items in the statement of financial position, a reconciliation or disclosure to explain the discrepancies may be beneficial to users of the financial statements.

Question 3: Do you agree that an entity should be required to disclose information about the nature of restrictions on its cash and cash equivalents? If not, please explain why that information would not be useful.

Response: Yes. We agree that an entity should be required to disclose information about the nature of and purpose for any restrictions on its cash and cash equivalents. However, we believe that such guidance is already incorporated within ASC 942-305-50-1.

Question 4: Would disclosures of the amounts of gross transfers between cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents (excluding transfers, constructive or actual, that result in a concurrent cash receipt from or a concurrent cash payment to an outside source) provide meaningful information to financial statement users? Please explain why.

Response: No. If a reporting entity is required to explain the change during the period in the total of cash and cash equivalents and restricted cash, we agree that a reporting entity should disclose the gross transfers between cash and cash equivalents and restricted cash (excluding transfers, constructive or actual, that result in a concurrent cash receipt from or a concurrent cash payment to an outside source). However, we believe the disclosure of these gross transfers, in isolation, would not clarify a reporting entity’s liquidation position, without consideration of restricted cash amounts received from or paid to external sources.

In our view, the proposed alternative discussed in Question 1 would result in more meaningful financial information for a user and would reduce diversity in practice. Under the proposed alternative, all changes in restricted cash, including internal transfers between cash and cash equivalents and restricted cash, would be disclosed on a net basis in the body of the statement of cash flows, as such activity generally impacts a reporting entity’s liquidity position and the cash balance that is otherwise available to satisfy its other general obligations. Additionally, the proposed alternative would require a reporting entity to provide supplemental disclosure of the various types of restrictions that exist with respect to its cash balances and the associated classification in the statement of cash flows.

While gross presentation is a conceptual underpinning of the statement of cash flows, ASC 230-10-45-8 permits a reporting entity to present certain items on a net basis to the extent that gross presentation is not otherwise necessary to understand its operating, investing, and financing activities. Items where turnover is quick, amounts are large, and maturities are short generally would qualify for net presentation.
As gross presentation of changes in restricted cash is not necessary to understand a reporting entity’s operating, investing, and financing activities and most restricted cash balances, including restricted cash received from consolidated securitization trusts, borrowers and sponsors, and derivative counterparties, meet the other general characteristics (i.e., turnover is quick, amounts are large, and maturities are short) required for net presentation, disclosure of changes in restricted cash on a net basis is appropriate.

**Question 5: Should any other disclosures be provided? If so, please explain what disclosures should be provided and why that information would be useful.**

**Response:** Yes. As discussed in our response to Question 1, we believe that in addition to disclosing information about the nature of and purpose for any restrictions on a reporting entity’s cash and cash equivalents, a reporting entity should be required to disclose the associated classification of changes in those restricted cash balances in the statement of cash flows.

**Question 6: Do you agree that the proposed amendments should be applied using a retrospective transition method? If not, please explain what transition method would be more appropriate and why.**

**Response:** Yes. We agree the proposed amendments should be applied using a retrospective transition method to ensure comparability of financial information for all periods presented in the statement of cash flows.

**Question 8: How much time will be necessary to implement the proposed amendments? Do entities other than public business entities need additional time to apply the proposed amendments? Why or why not?**

**Response:** If the proposed update is ratified by the Board, system changes would be necessary to identify the gross internal and external transfers between cash and cash equivalents and restricted cash. As a result, we believe that a minimum, one year is needed between the issuance of a final standard and the effective date to implement the proposed update. Furthermore, we believe the increased operational cost and complexity associated with the proposed update does not justify the incremental benefit that it would provide to users.

**Question 9: Should early adoption be allowed? Why or why not?**

**Response:** No. We believe early adoption may reduce the comparability of different entities’ statement of cash flows, which is contrary to the objective of the proposed ASU – to reduce diversity in practice.