February 14, 2012

Submitted by e-mail to director@fasb.org

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116,
Norwalk, Connecticut, 06856-5116

RE: Proposed Accounting Standards Update “Financial Services-Investment Companies (Topic 946)” File Reference No. 2011-200

Dear Technical Director:

We appreciate the opportunity to comment on the proposed Accounting Standards Update, Financial Services-Investment Companies (Topic 946) (the proposed ASU). We support the Board’s efforts to provide additional guidance regarding entities that should be considered Investment Companies for financial reporting purposes and agree that there should be consistency between U.S. Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS) in this regard. However, we are concerned that, as currently drafted, application of the proposed ASU may result in certain real estate investment trust (REIT) entities that are currently exempted from regulation under the Investment Company Act of 1940, as amended, (the 1940 Act)\(^1\), being required to prepare financial statements and account for their investments in accordance with the proposed ASU, resulting in a significant change from current practice for these entities. Consequently, we request that the Board consider

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\(^1\) In August 2011, the Division of Investment Management of the Securities and Exchange Commission (SEC) issued a concept release seeking comments on criteria that are currently used to determine whether an entity is exempt from regulation under the 1940 Act. The comment period ended November 7, 2011. It is unclear at this time whether the SEC will make changes to the existing criteria or over what timeframe changes, if any, to the existing criteria will be implemented.
including additional guidance in the final version of the ASU to assist financial statement preparers, their auditors and other stakeholders with their assessment of whether the guidance in the ASU should be applied to these particular types of REIT entities.

**Mortgage REITs that are exempt from the 1940 Act should not be considered investment companies for GAAP reporting**

MFA Financial, Inc. (MFA, the Company, we, or our) is an internally managed, New York-based REIT that has been listed on the New York Stock Exchange since April 1998. We are primarily engaged in the business of investing in agency residential mortgage-backed securities (Agency MBS) and non-agency residential mortgage-backed securities representing interests in pools of residential mortgages that are not insured or guaranteed by federally chartered corporations or U.S. Government agencies (non-Agency MBS and, together with Agency MBS, MBS). We consider that our business model is fundamentally different from that of a registered investment company. Furthermore, we believe that our investors distinguish investment companies from mortgage REITs such as MFA. Investment companies generally invest in a wide range of assets and securities, in accordance with the mandate granted to the investment company’s investment advisor. Mortgage REITs that fall within an exemption from regulation under the 1940 Act are limited in the types of securities and assets in which they may invest. Based on current SEC staff guidance, MFA must maintain at least 55% of its assets in whole pool Agency MBS and 25% of our remaining assets must be invested in other real-estate related assets (including non-Agency MBS) that are considered “Qualifying Interests” by the SEC. As part of our investment strategy, we seek to build a portfolio that creates value for our shareholders over the long term by acquiring assets within the MBS universe that will deliver
superior yields over our investment horizon while maintaining compliance with the SEC
guidance outlined above.

Our asset purchases are financed using the Company’s equity capital as well as through a variety
of financing arrangements including repurchase agreement financing and re-securitization. The
use of leverage by mortgage REITs is a key difference in the way that mortgage REITs operate
in comparison to investment companies. Consequently, an important metric used to measure our
performance each reporting period is the net interest spread we earn on our interest earning
assets over our interest bearing liabilities. While we are not prohibited from selling assets, our
sales of assets have historically been relatively minor relative to our portfolio as a whole. In
addition, in order to ensure our compliance with the requirements to maintain exemption from
regulation under the 1940 Act, we are limited in our ability to utilize certain types of derivatives
and other financial instruments that are not considered to be Qualifying Interests.

Further, as we are an internally managed REIT, we do not charge our stockholders management
fees that are based on the fair value of the assets in our portfolio. Investors in MFA purchase
stock in the Company in the equity markets and not based on a net asset value per share that is
determined by the Company. Finally, as REITs are required to distribute on an annual basis a
minimum of 90% of REIT taxable income as dividends to holders of common stock, a key
metric of interest to investors is the dividend yield. The amount that we can distribute in
dividends is not directly impacted by the fair value of our investments, but rather by the amount
of our REIT taxable income (which is not determined based on fair value) and the amount of
cash the Company has to fund dividend distributions.
Considering the factors outlined above, we believe the fact that we are internally advised, the long term nature our investment strategy and the limitations caused by the need to ensure compliance with the requirements to maintain exemption from regulation under the 1940 Act and our status as a REIT for tax purposes, requires us to operate our business in a manner that we consider is fundamentally different from an investment company in ways that are well understood by investors. In addition, we understand that many of our larger stockholders, as well stock analysts that cover the mortgage REIT sector, consider that mortgage REITs such as MFA operate in a manner very similar to financial institutions (i.e. mortgage banks) that have exposure to residential lending/real estate, with the main difference to such entities being that mortgage REITs obtain the majority of their funding in the wholesale/institutional market rather than in the retail deposit market. We understand that the accounting model and financial statement presentation approach used by such banking entities for their residential MBS portfolios is consistent with that currently used by most mortgage REITs. Consequently, if mortgage REITs were required to account for their investment portfolios as if they were held for trading purposes, we believe this would result in mortgage REITs producing financial information that would be less relevant to the key users of our financial statements as there would be less comparability of financial statement information between entities (i.e. banks with a focus on residential mortgage/lending activities and mortgage REITs) despite the fact that these entities engage in economically similar investment activities. Finally, the inclusion in net income for GAAP financial reporting purposes of unrealized investment gains and losses (based on changes in fair values) will result, in our view, in increased use of non-GAAP financial
measures given that many of our investors and financial analysts are primarily focused on non-fair value related metrics such as net interest spread and REIT taxable income.

Accordingly, we believe that it would be inappropriate for GAAP guidance to be applied in such a way that would result in mortgage REITs that operate in the same fashion as MFA being required to prepare financial statements and account for their assets as if they were investment companies.

Consistent with the logic that all entities that are regulated under the 1940 Act should automatically be in the scope of the guidance in the proposed ASU, we believe that mortgage REITs such as MFA that are exempt from regulation under the 1940 Act should be exempt from the scope of the proposed ASU. In our opinion, significant confusion would result in the investor community if an entity that was specifically exempt from regulation under the 1940 Act was required to prepare its financial statements as if were an investment company. Furthermore, the impact of following the guidance in the proposed ASU, including accounting for investments as if they were effectively being held for trading purposes and requirements to include certain disclosures that are specific to investment companies (including items such as net income and expense ratios and the inclusion of a detailed schedule of investments) would result in a significant change from current requirements for mortgage REITs that operate similarly to MFA with little, if any, additional benefits for the financial statement users of these entities given the fundamental differences in comparison to investment companies as discussed above.
Further practical guidance and examples are needed to ensure consistent application of the criteria used to determine an investment company under the proposed ASU

Notwithstanding the comments and views expressed in the previous section, if under the final version of the ASU, entities that are currently exempt from regulation under the 1940 Act were required to assess whether they need to apply the requirements of the ASU, we believe that it is critical that the application of the criteria set out in section 946-10-15-2 of the proposed ASU be well understood and of a nature where they can be consistently applied by preparers and users of financial statements, auditors and other stakeholders such as the SEC and the Public Company Accounting Oversight Board (PCAOB). While, as previously noted, we believe that entities that are exempt from regulation under the 1940 Act should also be exempt from the scope of the proposed ASU, we generally agree that the six criteria set out in section 946-10-15-2 a. through d. are reasonable and that meeting all of the criteria should result in an entity being in the scope of the requirements of the proposed ASU. However, we believe that criterion "cc" ("Substantially all of the investment company’s investments are managed, and their performance are evaluated, on a fair value basis"), the guidance in section 946-10-55-16 and in the Basis for Conclusions paragraphs BC 26 through 28 should be supplemented by further guidance and/or practical examples in the “Illustrations” section of the proposed ASU to assist financial statement preparers and users, auditors and other stakeholders in applying those criteria in determining whether an entity should apply the guidance in the ASU.

We believe that criterion “cc”, section 946-10-55-16 and paragraphs BC 26 through 28 as currently drafted and in the absence of other supporting guidance and/or examples are not sufficiently specific and may be difficult to apply in practice, potentially resulting in inconsistent
application of these criteria by similar entities. As an example, in applying the criteria to MFA, we designate our MBS as available for sale and report the portfolio each period at fair value with changes in fair value recorded in other comprehensive income, subject to assessment for other-than-temporary impairment (OTTI). In our view, this accounting model appropriately reflects our long term investment strategy (as opposed to a short term trading strategy), as changes in the fair value of our MBS are not included in net income, except that the credit-related component of the decline in the fair value of a security below its amortized cost will be recorded in net income for securities that have been determined to experience OTTI. Further, changes in fair values of securities that have not experienced OTTI are recorded in comprehensive income. We believe that this accounting and financial statement presentation model is well understood by the users of our financial statements. Fundamentally, given our long term investment objectives, the fact that we do not earn management fees based on the fair value of our assets and that we do not otherwise transact with our investors based on the fair value of our portfolio (i.e., MFA common stock does not trade on net asset value per share basis), we do not consider that we manage and evaluate the performance of our investments on a fair value basis. However, our concern is that current U.S. GAAP requirements to report our portfolio at fair value each period and the related controls and procedures that we employ to maintain appropriate internal controls over financial reporting to ensure that we report materially accurate fair value information could, in a broad application of "cc", section 946-10-55-16 and BC 26-28, result in the determination that fair value is the "primary measurement attribute" used to assess portfolio performance. Consequently, we encourage the Board to include further guidance in the final version of the ASU to provide specific examples of what it means for "Substantially all of the investment
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company's investments are managed, and their performance are evaluated, on a fair value basis” in order to clarify what type of entity is actually intended to be captured by this guidance.

Responses to “Questions for Respondents” set out in the proposed ASU

The appendix to this letter provides our responses to certain of the Board’s specific questions on the proposed ASU. We have not responded to certain questions as we do not believe they are our relevant to our business. If you have any questions about our comments or wish to discuss any of the matters addressed herein, please do not hesitate to contact the undersigned at (212) 207-6437.

Very truly yours,

[Signature]

Stephen D. Yarad
Chief Financial Officer
Appendix – Responses to select questions in proposed ASU

Question 1

The proposed amendments would require an entity to meet all six of the criteria in paragraph 946-10-15-2 to qualify as an investment company. Should an entity be required to meet all six criteria, and do the criteria appropriately identify those entities that should be within the scope of Topic 946 for investment companies? If not, what changes or additional criteria would you propose and why?

MFA Response:

We agree that the all six of the criteria in paragraph 946-10-15-2 should be met for an entity to be in the scope of Topic 946 for investment companies. However, as discussed further in our response letter, additional guidance is needed to assist financial statement preparers, auditors, users and other stakeholders consistently apply the criteria in paragraph cc of 946-10-15-2, paragraph 946-10-55-16 and in the Basis for Conclusions paragraphs BC 26 through 28.

Question 3

The proposed amendments would remove the scope exception in Topic 946 for real estate investment trusts. Instead, a real estate investment trust that meets the criteria to be an investment property entity under the proposed Update on investment property entities would be excluded from the scope of Topic 946. Do you agree that the scope exception in Topic 946 for real estate investment trusts should be removed? In addition, do the amendments in the proposed Updates on investment companies and investment property entities appropriately identify the population of real estate entities that should be investment companies and investment property entities?

MFA Response:

We believe that REITs that are exempted from regulation from the 1940 Act should also be out of the scope of the ASU. In our opinion, significant confusion would result in the investor community if an entity that was specifically exempt from regulation under the 1940 Act, was required to prepare its financial statements as if were an investment company. Furthermore, the impact of following the guidance in the proposed ASU, including accounting for investments as if they were effectively being held for trading purposes and requirements to include certain disclosures that are specific to investment companies (including items such as net income and expense ratios and the inclusion of a detailed schedule of investments) would result in a significant change from current requirements for entities that operate similarly to MFA with little, if any, additional benefits for the financial statement users of these entities given the fundamental differences in comparison to investment companies.
Question 4

The proposed amendments would require an entity to reassess whether it is as an investment company if there is a change in the purpose and design of the entity. Is this proposed requirement appropriate and operational? If not, why?

MFA Response:

We agree that it is appropriate that an entity should reassess whether it is an investment company if there is a significant change to the purpose of design of the entity. In addition, if a significant regulatory related change occurred that had a significant impact on the entity (e.g. if it became subject to regulation under the 1940 Act) then it should be required to reassess whether it is an investment company.

Question 11

The proposed amendments would require that substantially all of an investment company’s investments are managed, and their performance evaluated, on a fair value basis. Do you agree with this proposal? If not, why? Is this proposed amendment operational and could it be consistently applied? If not, why?

MFA Response:

We agree with the concept that an investment company is an entity that, in addition to the other requirements noted, manages substantially all of their investments and evaluates their performance on a fair value basis. However, as noted in our response letter, further guidance in needed in order to ensure consistent application of this criteria.

Question 18

The proposed amendments would retain the current requirement in U.S. GAAP that a noninvestment company parent should retain the specialized accounting of an investment company subsidiary in consolidation. Do you agree that this requirement should be retained? If not, why?

We agree that current requirements for the retention of specialized accounting of an investment company in consolidation should be retained.