



LETTER OF COMMENT NO. 177

March 31, 2009

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

Via e-mail to [director@fasb.org](mailto:director@fasb.org)

**Reference: Proposed FSP FAS 115-a, FAS 124-a, and EITF 99-20-b, *Recognition and Presentation of Other-Than-Temporary Impairments***

Dear Mr. Golden:

Freddie Mac appreciates the opportunity to comment on the proposed FASB Staff Position FAS 115-a, FAS 124-a, and EITF 99-20-b, *Recognition and Presentation of Other-Than-Temporary Impairments* (the "proposed FSP").

Freddie Mac is a publicly held company 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 hold a significant amount of securities in our portfolio that would be impacted by the proposed FSP. At December 31, 2008, our total investment securities classified as available-for-sale ("AFS") were valued at approximately \$459 billion. For the year ended December 31, 2008, we recorded approximately \$18 billion of other-than-temporary security impairments in accordance with FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities* ("Statement 115"), and Emerging Issues Task Force Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets" ("Issue 99-20").

We fully support the efforts of the FASB to improve the presentation of other-than-temporary impairments in the financial statements. We believe that the proposed FSP provides for a rational and appropriate disclosure of other-than-temporary impairment amounts by recording changes in prices related to credit in the income statement and all other price changes in other comprehensive income when an entity does not have the intent to sell or it is more likely than not that it will not have to sell the security before

recovery of its cost basis. The proposed FSP provides an accounting model that more appropriately reflects the economics of an entity that intends to hold the security until recovery.

However, we recommend the Board consider permitting retrospective application of the provisions of the proposed FSP with a cumulative effect adjustment to opening retained earnings for the earliest period presented. Additionally, we recommend the Board consider requiring subsequent changes in views of improved credit to be recorded through the income statement in the current period, rather than accreting changes prospectively through interest income. Finally, we believe that extending the effective date of the proposed FSP to interim and annual reporting periods ending after June 15, 2009, with early adoption permitted, would allow for appropriate implementation of the guidance in a timely and controlled manner.

### **Permitting a Cumulative Change**

We believe that the proposed FSP provides an improved accounting model and financial statement presentation for other-than-temporary impairment amounts. As a result, we believe that it would be beneficial to permit retrospective application with a cumulative effect of adoption reflected in opening retained earnings as of the beginning of the earliest period presented. That cumulative adjustment would be reflective of an entity's current view to credit losses, not a historical period-by-period review of what credit losses would have been in those particular periods (i.e. retrospective application).

Under the current provisions of paragraph 16 of Statement 115, an entity is required to record in earnings the change in fair value of any security for which it is probable that an entity will be unable to collect all contractual cash flows of the security. For the past 18 to 24 months, the valuations for securities have included significant liquidity premiums. Because of these large liquidity premiums, there has been a large disparity between expected loss amounts and current values for the securities derived under FASB Statement No. 157, *Fair Value Measurements*.

As a result, entities recognizing other-than-temporary impairments have taken significant charges to earnings when recording securities at fair value despite the fact that credit losses have been minimal in many instances. By permitting entities to reflect, in income, only changes in value attributable to credit for those securities for which an entity does not intend to sell or for which it is more likely than not that it will not have to sell before recovery, the proposed FSP provides clarity to a financial statement reader regarding expected actual losses versus liquidity and other premiums embedded in the price that an entity holding to recovery would never realize.

By permitting retrospective application with a cumulative effect adjustment to opening retained earnings, entities would be able to present financial statements consistently for all periods presented using this improved accounting model for recognition of other-than-temporary impairments. Many entities have taken substantial losses through their income statements as a result of the current impairment models in Statement 115 and Issue 99-20.

By providing these entities the ability to record a cumulative adjustment, a financial statement reader would be provided clarity as to the composition of historical impairments.

We understand that retrospective application may present a significant operational challenge for some entities. Therefore, we recommend that retrospective application with a cumulative effect adjustment to opening retained earnings be optional. By requiring appropriate disclosure regarding the election made on adoption, financial statement users should have sufficient information to enable appropriate analysis and comparisons.

### **Recording subsequent changes in view of credit losses**

Paragraph 14 of the proposed FSP addresses measurement of securities subsequent to recognition of other-than-temporary impairment. The guidance provided incorporates the current practice of recognizing the amount recorded in earnings related to other-than-temporary impairment as a discount or reduced premium recorded for the debt security. That discount or reduced premium is amortized over the remaining life of the debt security prospectively based on the amount and timing of future estimated cash flows.

Entities views on expected credit losses can change over time based on various factors. Under current guidance and the proposed FSP, to the extent that entities have an improved view of their expected credit losses, reductions in the amount of expected credit losses are excluded from current earnings and are accreted back into earnings over time. We believe a more appropriate approach would be to include amounts related to an improved view of credit in current period income. Accreting the amounts through income over time creates a non-cash yield, which we do not believe is reflective of the actual yield of the security. Recognizing the amounts in current period income is consistent with the initial recording of the expected credit losses in income and reflects the change in view in the appropriate time period.

### **Effective Date**

We believe the Board should reconsider the effective date of the proposed FSP. Although we believe that the proposed FSP represents a better accounting model and that it should be effective as soon as possible, we believe that given the conceptual change it introduces, it may be difficult for all entities to apply to quarters or fiscal years ending after March 15, 2009 given that the final guidance will likely not be issued until April of 2009. Further, if the Board amends the transition provisions to permit retrospective application, we believe that additional time may be necessary to implement the provisions of the proposed FSP in a controlled manner.

We recommend that the Board consider revising the effective date to interim or periods ending after June 15, 2009, with early adoption permitted. We believe this provides a practical accommodation for entities of all sizes to adopt the proposed FSP in a controlled manner, while quickly addressing this very pressing financial reporting need.

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 comments on the proposed FSP. If you have any questions about our comments, please contact Denny Fox, Vice President-Accounting Policy and External Reporting and Interim Principal Accounting Officer at 703-714-3160.

Sincerely,

A handwritten signature in black ink, appearing to read "Denny R. Fox". The signature is stylized and cursive.

Denny R. Fox  
Freddie Mac  
Vice President Accounting Policy and  
External Reporting and Acting Principal  
Accounting Officer

cc: Mr. David B. Kellermann, Senior Vice President and Acting Chief Financial  
Officer  
Ms. Wanda DeLeo, Federal Housing Finance Agency