



May 31, 2013

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

RE: Proposed Accounting Standards Update ("ASU") Topic 825-15 Financial Instruments – Credit Losses (File Ref # 2012-260)

Dear Ms. Cooper:

Annaly Capital Management, Inc. ("Annaly", "the Company", "we", "our") welcomes the opportunity to comment on the above referenced proposed accounting standards update 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 (each an "Agency") as well as commercial loans, commercial mortgage backed securities and residential whole loans. Our principal business objective is to generate net income for distribution to our stockholders from the spread between the interest income on our investment securities and the costs of borrowing to finance our acquisition of investment securities and from dividends we receive from our subsidiaries. As of March 31, 2013 the fair value of Annaly's portfolio was approximately \$112 billion.

We support the FASB's objectives to provide financial statement users with more decision-useful information about credit losses on financial assets as well as reduce the complexity in accounting for credit losses for financial instruments. We support the credit loss model set forth in the proposed ASU. We believe the proposed model addresses concerns regarding a more timely recognition of credit losses and simplifies accounting guidance for impairment of financial instruments that exists currently in the U.S. - Generally Accepted Accounting Principles ("GAAP"). The proposed ASU provides, what we consider, significant improvements over current GAAP. These include, but are not limited to:

- Providing one model for determining credit losses, regardless of the form of the instrument;

- Requiring that the allowance for credit losses reflect management's current estimate of contractual cash flows that are not expected to be collected;
- Simplifying the accounting for purchased credit-impaired ("PCI") financial assets; and
- Providing the ability to reverse previously estimated credit losses on debt securities.

We respectfully request you consider the following further enhancements or modifications to the proposal:

- In reference to ASC 825-15-25-2, as a practical expedient, an entity may elect not to recognize expected credit losses for financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income when both the following conditions are met as of reporting date:
 - The fair value of the individual asset is greater than (or equal to) the amortized cost basis of the financial asset; and
 - Expected credit losses on the individual financial asset are insignificant as of the reporting date.

We would suggest removing the requirement that both criteria be met and making the test an "either" "or" test. This revision would permit election of the practical expedient in the case of US Treasuries or Agency RMBS, for example, where factors other than credit risk may affect fair value, but the risk of recognizing actual credit loss is minimal.

- ASC 825-15-25-3 states that an entity is required to estimate credit losses over the entire contractual term of the financial assets. We believe this should be modified to state the "contractual term or expected life, if prepayments are considered" rather than just the contractual term. This revision would conform the text of ASC 825-15-25-3 to be consistent with the FASB discussion in the FAQ (question 8) provided on March 25, 2013 ("FAQs").
- ASC 825-15-25-4 indicates that the estimate of credit losses shall reflect the time value of money either "explicitly or implicitly". While discounted cash flows would explicitly reflect the time value of money other methodologies may be implicit in their reflection. The FASB indicated in its discussion on this in the FAQ (question 16) that an entity would not have to prove that an implicit methodology reconciles to an explicit methodology. We believe this guidance should be contained in the codification.
- ASC 825-15-25-7 indicates that credit losses may be reversed in accordance with changes in expectations – "An entity shall recognize in the statement of financial performance (as a provision for credit loss) the amount of credit loss **(or reversal)** required to adjust the allowance for expected credit losses for the current period in the statement of financial position..." (*emphasis added*). We believe it would be beneficial to codify, within ASC 825, that to the extent a positive change in expectations exceeds the credit loss allowance initially estimated at purchase this positive change should be accounted for prospectively as an adjustment to yield and not recognized immediately

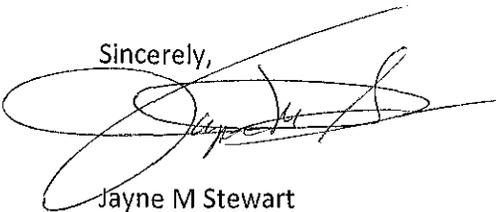
in earnings. We believe an immediate recognition in earnings of a positive change in expectations in excess of the allowance may have the potential to overstate earnings in the current period. This would appear to constitute a mismatched characterization of income as it is not "earned" during the current period, but over the life (expected or contractual) of the instrument.

- Clarification of the definition on "principal". While generally the term is interpreted to mean the outstanding balance on the instrument, not including contractual interest, the term, under the FASB's proposed ASU related to the classification of financial instruments defines the term as "the amount transferred by the holder at initial recognition". Therefore, regarding non-accrual status on PCI assets, this would make clear whether FASB intends this status to apply based on (i) receiving substantially all of a company's investment in such assets or (ii) substantially all the contractual principal due at the time a company acquires such assets.
- We would suggest that trade receivables and lease receivable be excluded from the scope of this update. Trade receivables are generally short term in nature and it would be operationally prohibitive to perform the analysis required under this ASU. We believe an analysis of lease receivables is more appropriately addressed directly within the guidance on leases.

We are also concerned about the proposal's codification of "reasonable and supportable" forecasts in cash flow estimates. Our concern is the development of a consistent application of the codification in practice. We believe the proposal is unclear as to what the appropriate standards are for a company to document and an independent registered accounting firm to audit the "reasonable and supportable" forecasts in a company's cash flow estimates. As indicated in the ASU, the development of expectations is highly subjective and it is possible for there to be differing expectations between market participants. As a result, while an independent registered accounting firm may be able to attest to the application of a consistent policy, it is not clear how such a firm will be able to develop the appropriate procedures to attest to the reasonableness of a company's expectations.

We thank the FASB for the opportunity to comment on this proposed update. Should you have any questions, require clarification or wish to further discuss our views on this ASU, please contact Jayne M. Stewart, Chief Accounting Officer for Annaly Capital Management, Inc. at jstewart@annaly.com or (212) 696-0100.

Sincerely,



Jayne M Stewart
Chief Accounting Officer
Annaly Capital Management, Inc.