CAPSTEAD

September 25, 2012

Phillip A. Reinsch
Executive Vice President
and Chief Financial Officer

Ms. Susan Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

File Reference No. 2012-200

Re: Financial Instruments – Disclosures about Liquidity Risk and Interest Rate Risk (Topic 825)

Dear Ms. Cosper:

Capstead Mortgage Corporation welcomes this opportunity to respond to the request for comments from the Financial Accounting Standards Board (the "Board") on the Board's Financial Instruments – Disclosures about Liquidity Risk and Interest Rate Risk (Topic 825) Proposed Accounting Standards Update (the "Proposed Update").

Background

Since our inception in 1985, we have elected to be taxed as a Real Estate Investment Trust (a "REIT") and have been listed continuously on the New York Stock Exchange under the trading symbol "CMO." We hold the distinction of being the oldest publicly traded mortgage REIT. Throughout our history we have operated within the residential mortgage finance industry in a variety of ways, including as a mortgage loan conduit acquiring and securitizing non-agency-guaranteed[1] residential mortgage loans originated by correspondent lenders; and as an originator and servicer of agency-guaranteed mortgage loans. Since 2007, we have focused our efforts exclusively on managing a large portfolio of agency-guaranteed adjustable-rate mortgage ("ARM") residential mortgage-backed securities ("MBS"). At June 30, 2012 we held $13.8 billion in ARM securities supported by long-term investment capital of $1.6 billion and borrowings under repurchase arrangements of $12.7 billion.

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[1] The term "agency" refers to Fannie Mae, Freddie Mac (together, the "GSEs") and Ginnie Mae. Agency-guaranteed MBS are considered to have little, if any, credit risk because of federal government support for the GSEs and outright ownership of Ginnie Mae.

CAPSTEAD MORTGAGE CORPORATION

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Similar to other mortgage REITs that do not service, originate or securitize mortgages, we operate with a relatively small team consisting of trading desk personnel and support staff including information technology, accounting and administrative professionals. Since we invest solely in agency-guaranteed mortgage-backed securities, we have little need for credit-risk personnel. As a result, our staff is currently limited to 15 employees. Our platform costs, a key metric in evaluating our performance, compare favorably within our industry.

Operational Concerns for Preparers and Auditors – General Statement Against Requiring these Disclosures to be Audited

It is our belief that the inclusion of a number of the proposed disclosures within the *audited* footnotes to the financial statements represents a sea change vastly expanding the traditional roles and responsibilities of both financial accounting and reporting personnel and external auditors. Much of the data required for these disclosures is typically sourced from operational systems that are not encapsulated within the financial accounting and disclosure controls framework to the extent necessary to allow for the efficient and conclusive audit by external auditors. Pulling such data within this framework will necessitate significant systems resources and increased staffing for small to medium-sized financial institutions. Additionally, in no small part because this data must be audited, accomplishing this work (and having it audited) within regulatory filing timeframes[2] will be burdensome for not only financial accounting and reporting personnel, but for the operational personnel of most small to medium-sized financial institutions and distract from managing operations.

The auditing of judgments used by management in making accounting estimates required to close the current period financials continues to be arguably the most difficult aspect of the external auditor's work, and traditionally, beyond these accounting estimates, external auditors have taken limited responsibility for forward-looking information. In fact, the auditing profession has gone to great lengths to distance itself from any responsibility for pro forma information in filings with the Securities and Exchange Commission (the "SEC"). In addition to other forward-looking disclosures proposed, the proposed interest rate risk disclosures require the external auditors to audit the financial forecasts of issuers, which of course require significant judgment in preparing. This expansion in

[2] Year-end SEC Form 10-K filing deadlines are 60 days for most issuers. From a practical perspective unfortunately, because of the SEC's XBRL filing requirements, all work must be done considerably sooner, with a 'pencils-down' date closer to 55 days, in order to ensure a timely and less costly filing. As such, issuers are already under considerable time pressure to produce audited financials.

audit scope will have significant negative consequences that the exposure draft does not adequately address:

1. Will the audit firms be able to 'audit' or opine' on the judgmental aspects associated with these disclosures without undo costs to issuers? (*Answer: No. For instance, how will an auditor gain audit evidence to support security-specific expectations for mortgage prepayment rates that are key to expected maturity, duration and yield calculations.*)

2. Will these firms be forced to use their own non-accountant specialists to do so? (*Answer: Likely, and at a high cost because of inefficiencies inherent in audit engagement team coordination with the auditor's specialist group, making it more difficult to meet year-end filing deadlines and resulting in more billable hours and at higher rates typically levied by specialists and other national office audit personnel.*)

3. What expansion of legal exposure does this entail for the audit firms? (*Answer: Significant. Increased legal exposures will inevitably lead to higher audit fees.*)

4. What will the Public Accounting Oversight Board and its bureaucrats force external auditors to do in order to perform what constitutes an adequate audit in their view? (*Answer: If the PCAOB's involvement elsewhere is any guide, a lot.*)

5. How much can issuers expect their audit fees to increase as a result? (*Answer: For Capstead, a lot. Probably somewhere in the neighborhood of 10 to 20%, excluding costs of increased systems and staffing needs.*)

Obviously, we believe the increased costs of staffing for and auditing these disclosures will be prohibitive and that timing problems will be significant. *Therefore, we believe the Board should reconsider requiring these disclosures to be audited.* We see two reasonable approaches that would achieve nearly all of the Board's stated goals without undue costs to issuers resulting from the massive expansion of external auditor involvement and responsibility:

1. Work with the SEC to include the suggested disclosures, including prescribed formats and data points needed for greater consistency and comparability between issuers, *on an unaudited basis* in the Management Discussion and Analysis section of SEC filings ("MD&A"). This of course would have the added benefit of eliminating redundancies inherent in the proposed disclosure requirements with similar disclosures already mandated for MD&A. Nonpublic entities could be required to simply provide the new disclosures in *unaudited* footnotes.

2. If coordination with the SEC is considered unworkable, simply require the new disclosures be provided in *unaudited* footnotes. Although this would not allow

for the elimination of redundancy for public companies, it would at least lessen the costs associated with making the disclosures by removing any requirement that the data be audited.

Responses to Specific Questions

Question 14: Interest Rate Risk Disclosures – Sensitivity Analysis of Net Income and Shareholders' Equity

We agree with the Proposed Update's stated goal of providing greater consistency in these disclosures to allow for increased comparability between issuers. However; we see a major operational concern as well as a significant constraint as this disclosure requirement is currently drafted.

Operationally, by requiring changes in net income and stockholders' equity to be presented in *both* dollars and percentages, the disclosure requirement creates the unintended consequence of providing all the data necessary for more astute users of financial statements to calculate an issuers' baseline financial forecast. Obviously, it is not in anyone's interest to require the disclosure of forecasted earnings in the notes to the financial statements (or elsewhere for that matter), particularly on a selective basis. We suggest that the disclosure requirement be revised to disclose dollars, or percentages, but certainly not both.

A significant constraint written into the proposed disclosure pertains to the prohibition against showing the impact on net income and stockholders' equity of changes in other elements of the financials, such as compensation accruals, that are directly affected by changes in earnings.

At Capstead, for instance, approximately 70% of our compensation is performance-based, consisting of incentive compensation (earned ratably, subject to a cap, when returns on capital exceed a predefined threshold); dividend equivalent rights that vary with dividends (as a REIT we are compelled to distribute our earnings as dividends); and performance-based stock awards that vest if certain return thresholds are met. To exclude the variability of such elements to changes in interest rates is misleading and presents an incomplete view of the potential impact of changes in interest rates.

We suggest that the disclosure requirement be revised to require all financial statement elements directly affected by changes in interest rates, such as compensation-related accruals, be incorporated into the rate shock disclosures.

Question 21: Effective Date

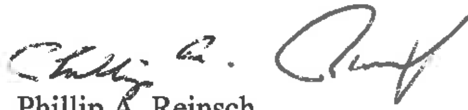
If these disclosures are required to be audited, a significant lead time, measured in years, will be necessary to fully develop audit-ready data accumulation systems and processes

and to bring these systems and processes inside the scope of our internal controls over financial reporting. Of course, as described above, this will involve significant internal costs. Additionally, I would assume the audit firms will need significant time to prepare and staff for this unprecedented expansion of what constitutes a financial audit.

In addition, due to the significant change to historical financial statement disclosure requirements, we suggest that at a minimum, this Proposed Update be deferred until the Disclosure Framework project is completed.

We thank the Board for the opportunity to comment on the Proposed Update. If you would like to discuss our comments further, please feel free to contact Phillip A. Reinsch directly at (214) 874-2380 or preinsch@capstead.com.

Respectfully submitted,



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