



Federal Housing Finance Agency

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July 29, 2011

Mr. James L. Kroeker
Chief Accountant
Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-0213

Dear Mr. Kroeker:

The Federal Housing Finance Agency (FHFA) welcomes the opportunity to comment on the Securities and Exchange Commission's (SEC or Commission) Staff Paper, *Exploring a Possible Method of Incorporation* (the Staff Paper) issued on May 26, 2011 as part of the Commission's work plan for the consideration of incorporating International Financial Reporting Standards (IFRS) into the financial reporting system for U.S. issuers.

FHFA supports the goal of one set of global, high-quality accounting standards for financial reporting by all public companies. We appreciate the Commission's efforts to encourage the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) to improve and converge accounting standards of the United States Generally Accepted Accounting Principles (U.S. GAAP) and IFRS for the benefits of the investors, creditors, regulators and other users of financial statements. We also acknowledge the commitment and hard work that the FASB and the IASB have demonstrated to achieve this challenging objective. The success of this convergence effort would assist the SEC in making its decisions about incorporating IFRS into the U.S. financial reporting system.

As the regulator of the Federal Home Loan Bank System and the regulator and conservator of Fannie Mae and Freddie Mac, we consider the financial reports by our regulated entities an important input to our safety and soundness supervision process. The financial support from the U.S. government to Fannie Mae and Freddie Mac, while these entities are operating under conservatorship, is based on the net worth deficit as reflected in their consolidated balance sheet prepared in accordance with U.S. GAAP. Therefore, we are deeply interested in high-quality accounting standards that promote the reporting of unbiased, transparent and relevant information about the economic performance and condition of these entities. Further, our regulated entities issue debt securities that are acquired by both U.S. and foreign investors. A set of high-quality, globally accepted and consistently implemented accounting standards, therefore, would facilitate investment decisions by investors in capital markets around the world.

Overall, we support the "Condorsement" approach, as described in the Staff Paper, to incorporate IFRS into the U.S. financial reporting system. The Condorsement approach provides for an

orderly and cost-efficient method to transition the financial reporting of U.S. issuers from current U.S. GAAP to IFRS, if and when the SEC decides to require U.S. issuers to do so. Because U.S. GAAP financial information is referenced in many laws and regulations that govern our supervisory activities, incorporating IFRS into U.S. GAAP would lessen the burden of revising laws and regulations that reference U.S. GAAP. The Condorsement approach would also establish a mechanism to help ensure that IFRS requirements incorporated into U.S. GAAP would remain high-quality for the benefits of the U.S. investors. We have three recommendations for the Commission to enhance the benefits of the Condorsement approach to users of the financial statements:

1. The SEC should permit U.S. issuers who are able and desire to do so, to adopt IFRS early. U.S. issuers who exercise this option should be required to early adopt all IFRS requirements at once. To the extent practicable, retrospective application and reconciliation to U.S. GAAP for all the years presented in the first set of IFRS financial statements should be required to aid the analyses by users of financial statements. This option would accommodate U.S. issuers who prefer to adopt IFRS early in a “big-bang” approach, and experience gained from these early adopters could serve as valuable inputs to minimize transition costs and unintended consequences for the Commission and other U.S. issuers.
2. To help users of financial statements understand the potential impact of incorporating IFRS into U.S. GAAP, we request that the Commission require robust disclosures of the operational and financial effects of incorporating IFRS during the transition period leading up to the effective date of the IFRS incorporation. Additionally, the Commission should maximize, to the extent practicable, the use of retrospective application in the transition to IFRS to facilitate analyses of IFRS transition effects on the financial statements over time.
3. The Commission should establish a clear threshold to ensure that the instances in which the FASB decides to (a) modify IFRS requirements; (b) retain relevant U.S. GAAP; or (c) require an alternative solution from IFRS, remain rare. The worthy goal of one set of global, high-quality accounting standards could only be achieved and maintained if FASB’s decision to depart from IFRS is considered only when the IFRS requirements are opposed by the majority of U.S. investors.

Thank you for the opportunity to provide our views. If you have any questions or comments regarding this letter, please feel free to contact me at 202-343-1832.

Sincerely,



Nicholas J. Satriano
Chief Accountant
Federal Housing Finance Agency