

January 3, 2022

*By Electronic Delivery Through the FHFA Website*

Mr. Clinton Jones  
General Counsel  
Federal Housing Finance Agency  
Eighth Floor  
400 Seventh Street, SW  
Washington, DC 20219

**Re: Comments/RIN 2590-AB18 – Proposed Rulemaking on Enterprise Regulatory Capital Framework – Disclosures for the Standardized Approach**

Dear Mr. Jones:

Freddie Mac appreciates the opportunity to provide comments on FHFA’s notice of proposed rulemaking on the Enterprise Regulatory Capital Framework (ERCF) – Public Disclosures for the Standardized Approach (the “Proposal”).<sup>1</sup> The Proposal would amend the ERCF to include standardized approach disclosure requirements for Freddie Mac and Fannie Mae (the “Enterprises”), including disclosures related to regulatory capital instruments and risk-weighted assets calculated under the ERCF. The disclosures in the Proposal generally align with public disclosure requirements for large banking organizations and are based on the Pillar 3 disclosure requirements established by the Basel Committee on Banking Supervision.<sup>2</sup>

Freddie Mac supports the expanded public disclosures that would be required by the Proposal. FHFA indicates that the Proposal would “improve market discipline and encourage sound risk-management practices,”<sup>3</sup> and we agree that market participants and the Enterprises would benefit from comprehensive, consistent and comparable information that would enhance assessment of the Enterprises’ material risks and capital adequacy. Notwithstanding our support of the Proposal, we recommend that FHFA clarify that the compliance date for the first reporting under the new requirements would be during the first quarter of 2023, in alignment with the Enterprises’ 2022 Annual Reports on Form 10-K. We also

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<sup>1</sup> See FHFA, Enterprise Regulatory Capital Framework—Public Disclosures for the Standardized Approach, 86 Fed. Reg. 60589 (Nov. 3, 2021).

<sup>2</sup> See 86 Fed. Reg. at 60589-90.

<sup>3</sup> 86 Fed. Reg. at 60589.

offer two other recommendations below that we believe will clarify FHFA’s proposed requirements and enhance the Enterprises’ public disclosures.<sup>4</sup>

*A. FHFA should clarify intended alignment of new reporting with Form 10-K*

The Proposal would require each Enterprise to make detailed disclosures of quantitative and qualitative information related to its regulatory capital instruments and risk-weighted assets,<sup>5</sup> as well as disclosures concerning market risk.<sup>6</sup> In general, an Enterprise would provide qualitative disclosures annually and quantitative disclosures quarterly,<sup>7</sup> and FHFA specifies in the Proposal that the annual qualitative disclosures would be provided “after the end of the fourth calendar quarter,”<sup>8</sup> effectively aligning an Enterprise’s annual qualitative disclosure schedule with its Annual Report on Form 10-K. This alignment is appropriate, given that the new qualitative disclosures are likely to make reference to Form 10-K disclosures. However, the compliance date of the new disclosures specified in proposed Sections 1240.4(b)(2) and (b)(3) (*i.e.*, “six months from the date of publication of the final rule . . . in the *Federal Register*”) would not necessarily place the Enterprises on a cycle where their longer, annual disclosures are provided after the end of the fourth calendar quarter. Because the Enterprises’ initial new disclosures logically would have to include both quantitative and qualitative disclosures,<sup>9</sup> alignment with Form 10-K disclosures would be achieved only if FHFA published the final rule approximately six months prior to the date that Form 10-K disclosures are made.

In order to ensure that the new disclosure cycle is aligned with an Enterprise’s Form 10-K disclosures, Freddie Mac recommends that FHFA clarify in the final rule that the compliance date for reporting under new requirements would be at least six months following publication of the final rule in the *Federal Register*, but that the initial report would not be required until the first quarter following the end of the Enterprise’s next fiscal year. Thus, if FHFA publishes a final rule before the end of the third quarter of 2022, the initial report for the Enterprises would be due in the first quarter of 2023. To the extent that this clarification potentially provides the Enterprises with more than six months to comply with new disclosure requirements, we believe that the Enterprises would be able to use any additional time to enhance the quality and usefulness of their disclosures.

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<sup>4</sup> We note that the Proposal assigns internal controls and review responsibilities to an Enterprise’s board of directors and senior management. See Proposed 12 CFR 1240.62(b) and 1240.205(b). After the Proposal is finalized, we will work with FHFA to address the interpretation of the respective roles of the board and senior management in the implementation of the final rule.

<sup>5</sup> See proposed 12 CFR 1240.62(a); 12 CFR 1240.63(b) and (c) (quantitative information required in Tables 1-9 and 11; qualitative information required in Tables 1-10).

<sup>6</sup> See proposed 12 CFR 1240.205.

<sup>7</sup> See proposed 12 CFR 1240.62(a); 1240.205(a).

<sup>8</sup> *Id.*

<sup>9</sup> Although proposed 12 CFR 1240.61(a) and 1240.205(a) generally require annual reporting of qualitative disclosures, a quarterly report must include qualitative disclosures that have changed from the prior quarter. Thus, the first new disclosures provided by an Enterprise necessarily must include all qualitative and quantitative items.

*B. FHFA should move certain credit risk disclosures in the Market Risk section of the Proposal to the sections addressing Credit Risk Mitigation or CRT and Securitization*

The Proposal specifies various enhanced disclosure requirements related to the ERCF’s market risk calculation. Among these, proposed Section 1240.205(d)(7) includes disclosures on the monitoring of changes in the credit risk of securitization positions and proposed Section 1240.205(d)(8) refers to disclosures related to the policy governing the use of credit risk mitigation to mitigate the risks of securitization and resecuritization positions. We believe that these disclosures are more appropriately addressed as part of the disclosures associated with Table 6 (Credit Risk Mitigation) and Table 7 (CRT and Securitization) as the credit risk of Enterprise securitization positions is generally assessed through Subpart D of the ERCF Rule (Risk Weighted Assets – Standardized Approach) as opposed to Subpart F (Risk Weighted Assets – Market Risk). Accordingly, we recommend that FHFA move the proposed credit-risk related disclosure requirements of Sections 1240.205(d)(7) and Section 1240.205(d)(8) to Table 6 or Table 7, as applicable.

*C. FHFA should provide clarification on the scope of qualitative disclosure (a) in Table 3 regarding geographic impacts of capital buffers*

Qualitative disclosure (a) in proposed Table 3 requires “a summary discussion of the Enterprise’s capital buffers and the differential effects, if any, the buffers have on an Enterprise’s business by geographic breakdown.”<sup>10</sup> Capital buffers are generally applicable to the Enterprise at the “top of the house” without any prescribed differences based on geographic or other attributes. Furthermore, given that in the ERCF buffers are specified as percentages of Adjusted Total Assets as opposed to Risk Weighted Assets (RWA), differences in historical house-price appreciation across regions that may affect RWA have no impact on capital buffer amounts. Given this context, it is unclear what disclosure would be responsive to this requirement. We recommend that FHFA provide clarification and detail on the type of differential effects by geographic breakdown that this disclosure is aiming to address.

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Freddie Mac appreciates the opportunity to provide our views on the Proposal. Please do not hesitate to contact me if you have any questions.

Sincerely,



Anil Hinduja  
Executive Vice President and Chief Risk Officer

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<sup>10</sup> Proposed 12 CFR 1240.63(a) (Table 3).