Letter of Comment No: File Reference: FSPFAS140B Date Received: 9|31|04

OJPMorganChase

Joseph L. Sclafani **Executive Vice President and Controller**

August 31, 2004

Via e-mail

director@fasb.org Mr. Lawrence W. Smith Director, TA&I Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856 - 5116

Dear Mr. Smith:

Re: FSP FAS 140-b, Application of EITF Issue No. 85-24, "Distribution Fees by Distributors of Mutual Funds That Do Not Have a Front-End Sales Charge," When Future Distribution Fees Are Sold to **Unrelated Third Parties**

JPMorgan Chase & Co. appreciates the opportunity to comment on the above-captioned Proposed FASB Staff Positions No. FAS 140-b (FSP). In this case, we support FASB's effort to provide guidance to ensure appropriate and consistent application of the relevant accounting rules to transactions where future mutual fund distribution fees are sold to unrelated third parties for cash (transactions). However, we have concerns that the proposed FSP did not address certain significant issues which we believe, if not amended, could lead to incorrect financial reporting of these transactions.

The proposed FSP only addresses transactions that may include some level of recourse and various indemnities that protect the third-party buyer in the event that the 12b-1 plan is rescinded by the fund's board (para. 7). We believe the FASB staff correctly concluded that for these exchanges, because of the recourse and indemnities involved, immediate revenue or gain recognition is not appropriate at the time the cash is received from the third-party buyer for the right to future fees.

We believe that the proposed FSP fails to provide guidance for transactions in which no such recourse or indemnities are provided. In these other transactions, the third-party buyer assumes all the risks related to such future fees and the distributor has sold the right to future fees for cash with no residual exposure. In these cases, immediate revenue or gain recognition would be appropriate. The current draft FSP could be interpreted to require cash received in transactions with no recourse/indemnities be recorded incorrectly

as debt or deferred income. Consequently, the proposed FSP should be expanded to describe the circumstances in which immediate revenue or gain recognition might be appropriate.

If you have any questions or would like to discuss our comments on the proposed FSP, please contact Shannon Warren at 212-648-0906 or me at 212-270-7559.

Very truly yours,

Joseph L. Sclafani