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VIA Email: director@fasb.org

Mr. Russell G. Golden
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 1830-100
Fair Value Measurements and Disclosures (Topic 820) Amendments for Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs

Dear Technical Director:

Franklin Templeton Investments¹ appreciates the opportunity to comment on the proposed accounting standards update (ASU) *Amendments for Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs* (the “Exposure Draft”). Our responses to the questions for respondents in the Exposure Draft are limited to certain questions for which their applicability to investment companies may be most significant, in our view, and are set forth below.

Introduction

Paragraph 820-10-50-2 of the Accounting Standards Codification (ASC) is proposed to be amended through, among other things, the addition of subparagraph “f” to include the required disclosure of a measurement uncertainty analysis (MUA) for any assets or liabilities categorized as Level 3 within the fair value hierarchy. Specifically, the MUA would require the disclosure of the impact upon a reporting entity’s financial position for changes in “one or more unobservable inputs used in a fair value measurement to a different amount that could have reasonably been used in the circumstances that would have resulted in a significantly higher or lower fair value

¹ Franklin Resources, Inc. is a global investment management organization which operates as Franklin Templeton Investments. Franklin Templeton Investments is engaged primarily, through its various subsidiaries, in providing investment management, distribution, transfer agency and administrative services to open- and closed-end Funds in the United States and overseas. At July 31, 2010, Franklin Templeton Investments advised or subadvised approximately 8,100 Registered Funds (as defined in the text below) and other accounts and managed \$602.9 Billion of assets around the world.

measurement...”² The proposal further goes on to require the reporting entity to “take into account the effect of correlation between unobservable inputs if that correlation is relevant when estimating the effect on the fair value measurement using those different amounts...”³

As preparers of financial statements for registered open- and closed-end investment companies (“Registered Funds”), we believe this expanded disclosure will create a costly and difficult to manage process with little tangible benefit for shareholders or other users of the financial statements of Registered Funds. Further, we believe that the MUA is ultimately a subjective disclosure with the potential to result in such a wide range of values that any possible meaning or benefit to the financial statement users would be minimal. This wide range of application will, in our view, ultimately lead to a diminution of comparability of the financial statements of reporting entities, including those of Registered Funds. Finally, we are concerned about certain unintended consequences that may arise with respect to the adoption of this proposal.

Questions for Respondents

***Question 7:** The Board has decided to require a reporting entity to disclose a measurement uncertainty analysis that takes into account the effect of correlation between unobservable inputs for recurring fair value measurements categorized within Level 3 of the fair value hierarchy unless another Topic specifies that such a disclosure is not required for a particular asset or liability (for example, the Board has decided in its project on the accounting for financial instruments that a measurement uncertainty analysis disclosure would not be required for investments in unquoted equity instruments). Do you think that proposal is appropriate? If not, why not?*

Scope and guidance

We agree with the exclusion of the unquoted equity securities, as set forth in paragraph 109 of the proposed ASU on financial instruments.⁴ Further, we urge that the Board consider expanding the scope exception to all financial instruments, and not simply limit the exclusion to unquoted equity instruments. We believe that the MUA, applied to debt securities, has similar issues and concerns as are applicable to unquoted equity securities, specifically related to the degree of subjectivity with which the MUA would ultimately be based.

Furthermore, we recommend that the scope and related exceptions be enumerated within the text of Topic 820 itself, as opposed to including those exceptions within other Topics. In our view, this will allow for greater ease of use for financial statement preparers and will not place a contingency for the exclusion of certain unquoted financial instruments upon the adoption of the proposed financial instrument ASU.

² Exposure Draft, paragraph 820-10-50-2(f)

³ Ibid.

⁴ Proposed Accounting Standards Update *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities* issued on May 26, 2010.

Lack of benefits

With respect to the MUA for any Level 3 investments, we believe that the benefits to a Registered Fund's shareholders are minimal. The disclosure of potential values would likely be based on such a wide range of alternative inputs that a shareholder or other user of the financial statements of a Registered Fund may only gain a very general understanding of relationships of inputs to valuation. For example, a shareholder may be able to ascertain a general relationship between a shift in the yield curve and the valuation of a bond or changes in home loan default rates and the valuation of a mortgage backed security. However, we do not believe that these general relationships would provide decision-useful information to investors or other users of the financial statements.

Diminished consistency and comparability

We believe that the proposed requirement will ultimately be adopted inconsistently by various reporting entities, including Registered Funds. Some entities may assert that the Level 3 debt security in question has no other "reasonably possible" inputs that result in "significant" differences, and thus would omit the disclosure. Other entities may use such a wide range of inputs that the possible resulting value range would be significantly large. We believe that the wide range of application will result in diminished comparability and a lack of consistency amongst reporting entities.

Additionally, even if adopted with the intention of consistency, reporting entities may see the world in very different ways. Registered Funds that hold the same Level 3 debt instrument may have vastly differing views of the economic outlook and possible impacts upon the valuation of the bond in question. For example, one Registered Fund may believe that the probability of an issuer default on a Level 3 bond is low whereas another Registered Fund may believe that the potential is significantly higher, and thus would disclose a more significant range of potential valuations. We do not believe that these differences in the disclosed valuation range at the balance sheet date would provide investors or other Registered Fund financial statement users with anything other than a subjective analysis.

Unintended consequences

A Registered Fund calculates a net asset value (NAV) per share daily, based on its current and best estimate of the value of its portfolio, including investments categorized as Level 3 within the fair value hierarchy. Providing a range of possible values within the financial statements of a Registered Fund may serve to undermine the confidence that an investor places upon the NAV per share used in transaction processing. In instances where valuations of investments categorized as Level 3 within the fair value hierarchy changes, perhaps even outside of the last disclosed range of values that could have reasonably been used, we are concerned that litigation or other unintended consequences such as an increase in shareholder redemption activity may result.

The Exposure Draft notes the Board's conclusion that the "objective of a measurement uncertainty analysis is to provide users of financial statements with information about the measurement uncertainty inherent in the fair value measurements

categorized within Level 3 of the fair value hierarchy at the measurement date. The proposed disclosure is not intended to reflect remote (including worst-case) scenarios and is not forward looking... [emphasis added]⁵

We note that for a Registered Fund, the current valuation of any financial instrument is the entity's best estimate of value at a given point in time; the Registered Fund stands ready to issue and redeem shares based on this value. Any "uncertainties" with respect to valuation range are for all practical purposes irrelevant for a Registered Fund. Accordingly, in the context of a Registered Fund, we believe that the MUA can only be viewed as a forward looking analysis, which is inconsistent with the conclusions reached by the Board and set forth in paragraph BC58, as noted above.

Cost of compliance

We believe that the cost of implementing the proposed guidance in the Exposure Draft, even limited to Level 3 debt securities, may be significant to reporting entities. Although ultimately subjective in nature, the development of dynamic modeling for financial statement disclosure purposes, which captures the impact to a valuation by changing one or more of the unobservable inputs used in a fair value measurement and factors in the correlations between unobservable inputs would place a significant burden upon the Registered Fund's pricing agents.

Currently, a Registered Fund has procedures to identify relevant inputs and quantify its best estimate of fair value for Level 3 debt and equity securities. Under the new proposal, the Registered Fund would need additional procedures to capture the "reasonably possible" range of inputs, capture and analyze input correlation, and develop and maintain models to produce not only the point estimate of fair value but also a range estimate based on alternative inputs, correlations, probabilities, etc. For investment managers with large populations of debt securities categorized as Level 3 within the fair value hierarchy, we believe that these costs will be significant. These costs may be incurred through increased levels of oversight personnel, increased levels of investment analysis personnel, and the opportunity costs associated with focusing on the oversight; ultimately, these are costs that will either be borne directly or indirectly by the shareholders of a Registered Fund.

Conclusions

We believe that all financial instruments should be excluded from the MUA requirements currently being considered. However, if the Board continues to believe that the MUA would be beneficial for certain reporting entities, we urge that Registered Funds and similar investment vehicles that calculate and transact at a NAV per share daily be specifically excluded from the requirements related to the MUA for all financial instruments held in the funds' portfolios. We believe that the lack of tangible benefits to the shareholders of a Registered Fund, coupled with the cost of compliance, would be prohibitive. Further, in the context of a Registered Fund, we believe that the MUA is

⁵ Exposure Draft, paragraph BC58

solely a forward looking analysis, and thus inconsistent with the stated objectives of the Exposure Draft.

Question 8: *Are there alternative disclosures to the proposed measurement uncertainty analysis that you believe might provide users of financial statements with information about the measurement uncertainty inherent in fair value measurements categorized within Level 3 of the fair value hierarchy that the Board should consider instead? If so, please provide a description of those disclosures and the reasons why you think that information would be more useful and more cost-beneficial?*

We believe that the MUA should not be required for any financial instruments categorized as Level 3 within the fair value hierarchy as we do not believe that the proposed requirement ultimately provides decision-useful information to the Registered Fund's financial statement users.

Alternatively, for Registered Funds within the scope of Topic 946, we favor an enhanced qualitative discussion of the risks associate with all Level 3 instruments. Coupled with the recently required disclosures regarding valuation techniques for Level 3 holdings⁶, we believe that the qualitative discussion of risks provides a Registered Fund's financial statement users with more useful information regarding Level 3 holdings.

Question 12: *How much time do you think constituents would need to prepare for and implement the amendments in this proposed Update?*

Assuming that the MUA for debt securities is required as currently contemplated, we believe that implementation of the requirement should occur no sooner than fiscal years beginning twelve months after the release of the final version of the ASU so as to allow Registered Funds and other preparers of financial statements adequate time to develop and implement the required policies and procedures needed to enact this disclosure requirement.

We appreciate your time and consideration of our comments. If you have any questions or wish to discuss any of the issues addressed in this letter, please contact the undersigned at (916) 463-5030.

Very Truly Yours,

/s/

Laura F. Fergerson
Senior Vice President
Franklin Templeton Investments

⁶ ASC 820-10-50-2(e)