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VIA Email: director@fasb.org

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2011-200
Financial Services – Investment Companies (Topic 946) – *Amendments to the Scope, Measurement, and Disclosure Requirements*

Dear Technical Director:

Franklin Templeton Investments¹ appreciates the opportunity to comment on the proposed accounting standards update (“ASU”) Financial Services – Investment Companies (Topic 946) – *Amendments to the Scope, Measurement, and Disclosure Requirements* (the “Exposure Draft”). We support the efforts of the Financial Accounting Standards Board (“FASB” or “Board”) and the International Accounting Standards Board (“IASB”) in developing consistent criteria in assessing whether an entity is an investment company. Our comments and responses to the questions in the Exposure Draft are limited to areas for which we believe that the proposed changes may significantly impact both qualitative and quantitative aspects of the financial statements of an investment company.

Introduction

We support the Board’s decision to require an entity that is regulated as an investment company under the Investment Company Act of 1940 (“1940 Act investment company” or “1940 Act Fund”) to be within the scope of Topic 946, *Financial Services – Investment Companies*, regardless of whether the 1940 Act investment company meets all of the proposed criteria in the Exposure Draft. This scope inclusion would avoid situations in which a 1940 Act investment company would be required to maintain records under different measurement bases where it is considered an investment company for regulatory purposes but not for U.S. GAAP financial reporting purposes. We also support the Board’s conclusion that money market funds manage their investments on a fair value basis for the reasons stated in paragraph 29 of the Basis of Conclusions (“BC”) in the Exposure Draft.

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 and institutional and other accounts in the United States and overseas. At December 31, 2011, Franklin Templeton Investments advised or subadvised approximately 8,500 Registered Funds (defined as U.S. registered open- and closed-end investment companies) and other accounts and managed \$670.3 billion of assets around the world.

We agree with the Board's view that an investment company should not consolidate or apply the equity method for an interest in an operating company unless the operating company provides services to the investment company. However, we have significant concerns about the Board's decision to require an investment company in a fund-of-funds ("FOFs") structure to consolidate a controlling financial interest in an underlying investment company. We believe that requiring consolidation in a FOF structure does not provide meaningful information to an investor given that fair value accounting best represents an investment company's business purpose and management strategy. In our view, this better meets the needs of the investors.

Questions for Respondents

Interests in Other Entities

Question 12: *The proposed amendments would retain the requirement that an investment company should not consolidate or apply the equity method for an interest in an operating company unless the operating entity provides services to the investment company. However, the proposed amendments would require an investment company to consolidate controlling financial interests in another investment company in a fund-of-funds structure. An investment company would not consolidate controlling financial interests in a master-feeder structure. Do you agree with this proposed requirement for fund-of-funds structures? If not, what method of accounting should be applied and why? Should a feeder fund also consolidate a controlling financial interest in a master fund? Please explain.*

Scope and guidance

We have several concerns related to the Board's proposal requiring the consolidation of a controlled underlying fund in a FOF structure. Investment companies, including FOF structures, exist primarily for the purpose of allowing investors to pool their money to access professional investment management. Investors realize their share of the benefits of the pooled investment in the form of performance return that includes their share of any capital appreciation and investment income. Therefore, the most relevant information to investors to track the progress of their investment is the change in an investment company's fair value.

A FOF's "controlling" financial interest in another investment company is not any greater than an investment company's controlling financial interest in an operating company. In both situations, the investing fund is holding the investee fund / operating company for purposes of realizing capital appreciation, investment income, or both. A FOF does not have the power to direct the day-to-day operations of an underlying investee fund and does not receive any compensation from the underlying investee fund other than through dividend and capital gains distributions paid by the underlying fund. Generally, a FOF does not have significant influence over the management of the underlying investee fund².

Consolidation based on ownership may be inappropriate

The usefulness of consolidating an underlying investee fund is diminished when the consolidated investee fund represents an insignificant portion of the FOF's net assets. For example, a situation may arise where the FOF owns greater than 50% of an underlying investee fund, but this investment represents less than 5% of the FOF's net assets. Under the proposal, the consolidated underlying investee fund would receive greater importance in the

² Because a FOF's investment in an affiliated investment company could raise a conflict of interest situation for the FOF adviser, a FOF will generally either submit any matter requiring a vote of the underlying fund shares to the FOF shareholders or the FOF will vote in the same proportion as the votes of the other beneficial shareholders of the underlying fund (where a FOF would merely amplify the votes already received from the other underlying fund shareholders). In either case, the FOF would not exercise direct control over an underlying fund, but would act at the direction of either the FOF's shareholders or in line with the voting of the underlying fund's other shareholders.

FOF's financial statements than another underlying investee fund that represented a more significant amount of the FOF's net assets (i.e., *greater* than 5% of the FOF's net assets), but in which the FOF did not have a "controlling" financial interest.

Increased burden and costs with lack of benefits

In an open-end FOF structure, the investing fund's ownership percentage in an investee fund could change frequently due to subscriptions and redemptions of other investors within the investee fund, thereby causing an investee fund's consolidation status to change from one reporting period to another. This could result in a complex, costly and time-consuming analysis at each reporting period-end, adding little value to investors in the FOF. Furthermore, the changes in the consolidation conclusion at the end of each reporting period will also decrease comparability within the FOF's financial statements. A FOF and its auditor would likely incur substantial costs in analyzing, monitoring and auditing the consolidated financial statements.

Furthermore, the proposed requirements may actually serve to limit investors' access to certain FOF structures, in particular where the underlying investee funds are not affiliated with the FOF. The manager of the FOF may find it difficult, if not impossible, to obtain the information required for consolidation from an unaffiliated investment manager. This may serve as a practical impediment to certain FOF structures and limit the diversity of investment options that investors have.

Wholly-owned investment companies (blocker entities)

We generally agree with the Board's decision that a parent investment company should consolidate a wholly-owned investment company subsidiary that is established for tax, legal, or regulatory purposes to provide investors of the parent investment company transparency into the subsidiary investment company's underlying investments and obligations. We note that the business purpose of wholly-owned blocker entities is quite different than majority owned non-blocker entities and, taking into account the purpose for which these blocker entities are established, it makes more sense for an investment company to consolidate such wholly-owned subsidiaries.

Conclusions and recommendations

We believe that the current practice of reporting investments in the underlying investee funds at fair value in a FOF's financial statements, rather than consolidation, provides more meaningful information to current and prospective investors of investment companies. However, if the Board determines that changes to the current reporting model for FOF structures is necessary, we suggest that such changes be achieved through requiring additional disclosures in the FOF financial statements as opposed to consolidation. Such disclosures may include discussion of the underlying fund's valuation policies, investment strategies, significant investment concentrations as well as investment returns and operating results.

Fair Value Management

Question 11: *The proposed amendments would require that substantially all of an investment company's investments are managed, and their performance evaluated, on a fair value basis. Do you agree with this proposal? If not, why? Is this proposed amendment operational and could it be consistently applied? If not, why?*

We agree with the Board's conclusion that money market funds manage their investments on a fair value basis and should qualify as investment companies under the proposed criteria although they report their investments at amortized cost. We suggest that the Board's position on money market funds currently contained in paragraph BC29 of the Exposure Draft be moved within the "Implementation Guidance and Illustrations" section of the final standard, to be included as part of the authoritative standard itself.

Exit Strategy

We are concerned with the Board's determination in paragraph 946-10-55-10 that disposal of investments during liquidation or to satisfy investors redemptions (for investment companies whose express business purpose includes realizing capital appreciation) are not exit strategies. The requirement that an entity should have an exit strategy to dispose of its investments before liquidation when its express business purpose is realizing capital appreciation may inappropriately exclude entities such as index funds, exchange-trade funds as well as certain tax-efficient long term value funds from qualifying as investment companies. We suggest that the Board to adopt an approach where consideration is given to various factors, including the intent and the ability to dispose of investments in determining whether an exit strategy exists.

Scope

Question 1: *The proposed amendments would require an entity to meet all six of the criteria in paragraph 946-10-15-2 to qualify as an investment company. Should an entity be required to meet all six criteria, and do the criteria appropriately identify those entities that should be within the scope of Topic 946 for investment companies? If not, what changes or additional criteria would you propose and why?*

We agree with the criteria proposed by the Board. However, we believe that a principles-based approach should be adopted where these six criteria are among various factors considered in the decision process for determining whether an entity is an investment company. This approach could include a qualitative assessment of the criteria, allowing for consideration of factors such as: (i) the express business purpose for which an entity is formed; (ii) the type of investor for which the entity is being established; (iii) whether or not the entity manages and reports its investments at fair value; and (iv) whether the entity provides financial results to its investors. Such a qualitative assessment would be consistent with the weighting methodology that was proposed in AICPA's permanently deferred Statement of Position (SOP) 07-1, *Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies*.

Effective Date and Transition

Question 20: *How much time would be necessary to implement the proposed amendments?*

We recommend that the Board provide twelve to eighteen months from the issuance of the final standard before the amendments are effective, particularly if the amendments will require consolidation in a FOF structure.

We appreciate your consideration of our comments. Should 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 Services, LLC