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January 25, 2011

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. 1900-100
Transfers and Servicing (Topic 860) *Reconsideration of Effective Control for Repurchase Agreements*

Dear Technical Director:

Franklin Templeton Investments[1] appreciates the opportunity to comment on the proposed accounting standards update ("ASU") *Reconsideration of Effective Control for Repurchase Agreements* (the "Exposure Draft"). We support the efforts of the Financial Accounting Standards Board ("FASB") towards the improvement of accounting guidance related to repurchase transactions and are in agreement that collateral maintenance is not necessarily indicative of the economic substance of a repurchase transaction. Our comments and responses to the questions in the Exposure Draft are limited to areas for which we believe that the proposed changes may impact both qualitative and quantitative aspects of the financial statements of an investment company, and are specifically related to certain classes of repurchase transactions.

Introduction

Certain paragraphs of FASB Accounting Standards Codification ("ASC") Topic 860 *Transfers and Servicing* are being proposed for amendment through the Exposure Draft to eliminate collateral maintenance provision considerations, which previously had been used, in certain circumstances, to support and determine the proper repurchase transaction accounting treatment under generally accepted accounting principles. Specifically, paragraph 4 of the Exposure Draft calls for the removal of FASB ASC 860-10-40-26, which notes that "a mechanism to ensure that adequate collateral is maintained must exist even in transactions that are substantially overcollateralized (for example, deep discount and haircut transactions) to indicate that the transferor has maintained effective control that would preclude sale accounting for those transactions."

As preparers of financial statements for U.S. registered open- and closed-end investment companies ("Registered Funds"), we believe that the current version of the Exposure Draft would result in potentially inconsistent accounting and financial statement presentation for specific types of repurchase transactions. Certain Registered Funds regularly enter into dollar roll repurchase agreements[2] (sometimes referred to as a mortgage dollar roll or "MDR"). In the case of an MDR, we believe that the proposals contained within the Exposure Draft present opportunities for inconsistent application based on varying interpretations of the then-remaining Topic

[1] Franklin Resources, Inc. is a global investment management organization which operates as Franklin Templeton Investments. Franklin Templeton Investments is engaged primarily, though 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, 2010, Franklin Templeton Investments advised or subadvised approximately 8,200 Registered Funds (as defined in the text below) and other accounts and managed $670.7 billion of assets around the world.
[2] ASC 860-10-20

860 guidance; this would, we believe, create a divergence in accounting practice between similarly situated Registered Funds for economically similar or identical transactions.

Questions for Respondents

Question 1: *Would the proposed amendments represent an improvement and simplification to the assessment of effective control for agreements that both entitle and obligate the transferor to repurchase or redeem the financial assets before their maturity? Are the proposed amendments clear and appropriate? Will the proposed amendments result in financial reporting that provides users with decision-useful information?*

Current Practice

Dollar roll transactions can be structured in a number of ways, as described in Topic 860[3]. Type 4 rolls (ones solely involving to-be-announced or "TBA" securities for which the underlying security does not yet exist) are not evaluated within the context of Topic 860[4]. For other types of rolls, Topic 860 provides guidance on the proper accounting. We note that most Registered Funds currently account for MDR transactions as sales and purchases; this accounting is predicated primarily on two different analyses, both leading to the sale and purchase accounting under the Topic.

One rationale for sale and purchase accounting for an MDR is based upon the concept of substantial similarity of the sold and repurchased mortgage-backed securities ("MBS"). ASC 860-10-40-5 provides certain requirements for a transaction to be accounted for as a sale, one of which is that the transferor does not maintain "effective control" over the repurchased asset. A key criterion in determining whether or not effective control over the transferred asset is maintained in an MDR transaction is whether or not the repurchased asset is substantially similar[5]. As MDR transactions regularly involve the repurchase of TBA securities and are extended over months or years, it is often difficult to conclude that the criteria outlined in Topic 860 related to substantial similarity (in particular the criteria regarding underlying collateral, weighted average maturities, and aggregate unpaid principal amounts that meet good delivery standards for the MBS market) are met; accordingly, effective control is not met and such transactions would be accounted for as sales and purchases.

A second rationale for sale and purchase accounting for an MDR is also based upon the concept of effective control. The current version of Topic 860[6] notes that for effective control to be maintained, a collateral maintenance provision must be present to ensure that adequate collateral is maintained over the life of the contract. Certain Registered Funds, in analyzing their exposure to MDR transactions, have concluded that this lack of collateral maintenance leads to the proper accounting treatment of these transactions as sales and purchases.

Under either of these analyses, the accounting conclusion has been that an MDR transaction is properly accounted for as a sale and a purchase of mortgage-backed securities. We note that the current accounting and financial statement presentation is consistent and transparent to shareholders; although the assets sold have been removed from the Registered Fund's books, the repurchased asset has taken its place, along with a corresponding payable for the settlement of this purchase.

Future Practice

Based on the proposed changes set forth in the Exposure Draft, we believe that Registered Funds that had previously relied upon provisions related to the collateral maintenance in Topic 860 in order to determine that sale and purchase accounting for MDR transactions was appropriate would be required to re-evaluate their accounting. In certain instances, we believe that Registered Funds may then conclude that a given MDR transaction is a secured borrowing under the Topic, as opposed to a sale and purchase. We anticipate that this change in analysis will lead to a divergence in accounting practice among Registered Funds, where certain funds will continue to

[3] ASC 860-10-20
[4] ASC 860-10-55-17
[5] ASC 860-10-40-24
[6] ASC 860-10-40-26

treat the transactions as sales and purchases based on their assessment of substantial similarity while others will now treat the transactions as secured borrowings.

A subjective assessment of the degree of substantial similarity between the two assets in question may lead different Registered Funds to utilize different accounting treatments for an otherwise identical transaction economically. In the case of a Registered Fund that concluded that the transaction was now a secured borrowing, it would be required to gross up its interest earned and interest expense on its statement of operations, by equal amounts. This gross up would have no impact on the Registered Fund's results of operations or its total return but would have the potential to skew its expense ratio[7]. Shareholders in Registered Funds often review expense ratios as a key criterion in their investment decision making process. We believe that this change will disadvantage shareholders in that expense ratios may now lack comparability and thus reduce the decision-usefulness of the information.

Question 2: *The Board plans to require that the amendments in the final Update be effective for entities as of the beginning of the first interim or annual period after its issuance. Are there any significant operational issues that the Board should consider in determining the appropriate effective date for the final amendments?*

Many Registered Funds would need significant investments in and enhancements to their trading and accounting systems in order to both capture and to analyze MDR transactions. We note that MDR transactions often involve a significant volume of underlying sale and purchase transactions for individual MBS pools and we believe that an immediate implementation of the Exposure Draft, as it is currently written, would pose a significant challenge to many Registered Funds that engage in these types of transactions until such time as systems and other aspects of the control structure could be modified to properly identify and account for these transactions. If the Exposure Draft were to be adopted as currently proposed, we would recommend that it be effective for Registered Funds no sooner than fiscal years beginning a year after its issuance.

Conclusion

While we agree with the FASB's goal of improving the accounting for repurchase transactions, we believe that within the context of MDR transactions, the Exposure Draft as it is currently proposed will lead to an increased divergence in practice among Registered Funds for economically similar or identical transactions. We urge that the FASB give consideration to enhancing Topic 860 and the related implementation guidance surrounding dollar roll transactions and the definition of substantially similar in order to ensure a consistent accounting framework exists for these types of transactions.

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We appreciate your time and 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 Investments

[7] Expense ratio is the ratio of the Registered Fund's total expenses to its average net assets of the period in question.