FRANKLIN TEMPLETON
INVESTMENTS

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VIA EMAIL

April 26, 2013

British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Financial Services Commission
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
New Brunswick Securities Commission
Registrar of Securities, Prince Edward Island
Nova Scotia Securities Commission
Superintendent of Securities, Newfoundland and Labrador
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon
Superintendent of Securities, Nunavut

Attention: The Secretary
Ontario Securities Commission
20 Queen Street West
19th Floor, Box 55
Toronto, ON M5H 3S8

Me Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800, square Victoria, 22e étage
C.P. 246, tour de la Bourse
Montréal (Québec) H4Z 1G3

Dear Sirs/Mesdames:

Re: CSA Discussion Paper 81-407: *Mutual Fund Fees*

Franklin Templeton Investments Corp. ("FTI") is writing to provide comments with respect to the Canadian Securities Administrators' ("CSA") Discussion Paper 81-407: *Mutual Fund Fees* (the "Discussion Paper").

FTI is currently registered in most provinces and territories in Canada as an adviser, investment fund manager, mutual fund dealer and exempt market dealer. FTI is a wholly owned subsidiary of Franklin Resources, Inc., a global investment organization operating as Franklin Templeton Investments, with total assets under management of USD $823.7 billion as of March 31, 2013. Through its subsidiaries, Franklin Templeton Investments provides global and domestic investment advisory services to the Franklin, Templeton, Bissett, Mutual Series, Franklin Templeton and Quotential funds and institutional accounts. As of March 31, 2013, FTI had more than 600 employees providing services to nearly 800,000 unitholder accounts and more than 100 pension funds, foundations and other institutional investors in Canada. Our mutual funds are distributed primarily through third party dealers to retail investors.

FTI appreciates the opportunity to provide feedback regarding the topics for consideration in the Discussion Paper and we have comments regarding certain of the possible options for which the CSA is seeking comment. We also wish to articulate certain principles that inform our comments regarding the options.

General Comments

FTI believes in the following key principles:

- *Best Interests of Investors is Paramount* – FTI strongly believes that the best interests of investors should be the primary consideration in determining what, if any, regulatory initiatives to pursue. That said, we believe investors should be allowed to make their own choices. If provided with full transparency (see our comments below) and clearly defined options/choices, investors should, with or without the assistance of an advisor, be able to make appropriate choices regarding the type of fund, class or series and purchase option that is most suitable for their individual circumstances;

- *The Value of Mutual Funds* – For many years, mutual funds have been the preferred investment for Canadian investors because of the many advantages they offer, including: access to the capital markets with a relatively small investment, professional investment management, broad diversification, transparency and strong regulation in place to protect investors' interests. In fact, we are concerned and frustrated with the predominantly negative attention given to mutual funds in Canada by the media in recent years. We believe that, in many cases, the criticisms are one-sided and unwarranted and do not reflect the many positive attributes of mutual funds. We believe that mutual funds remain one of the best investment vehicles available to assist Canadian investors in meeting their financial goals;

- *Value of Financial Advice* – FTI believes that most retail investors should seek financial advice and that such advice should play a critical role in their investment decision making. Furthermore, we believe that investors have been generally well serviced by advisors. With the increasing complexity of investment solutions and volatility in the capital markets, we believe that few average investors have the time, knowledge or expertise to develop, monitor and manage an effective investment plan without professional help;

- *Transparency* – FTI believes in the need for full and effective transparency of information to investors, including the components of a mutual fund's management expense ratio ("MER") and the compensation paid to dealers. Much of this information is already provided in a mutual fund's simplified prospectus, fund facts, financial statements and/or management reports of fund performance ("MRFPs"). Over the years, regulators have developed many additional forms of disclosure (e.g. MRFPs, fund facts, etc.) in an effort to improve transparency. The introduction of amendments to National Instrument 31-103 – *Registration Requirements, Exemptions and Ongoing Registrant Obligations* ("NI 31-103") should further improve the transparency provided to investors. If full transparency is provided, fund companies should be free to choose which funds, classes or series and purchase options they would like to offer and investors, with or without the assistance of an advisor, should be able to make a fully informed choice about the fund, class or series and purchase option that is most suitable for their individual circumstances. If regulators believe that the existing and new forms of disclosure are not providing investors with the information they need to make informed decisions, we believe regulators should undertake a review of those disclosures with a view to improving them before any other actions are considered or taken; and

- *Embedded Compensation* – FTI believes that embedded compensation is an important element of mutual funds. Overall, it serves investors well in that it provides them with cost certainty, removes the burden of having to negotiate a fee directly with their dealer/advisor and aligns the interests of investors and their dealer/advisor. As stated above, we also believe in the value of financial advice, but such advice comes with a cost and we think that, provided it is fully transparent, embedded compensation remains the most efficient method of compensating dealers/advisors for the important services they provide. It is also worth noting that embedded compensation is a compensation model used for many different financial products and we are concerned that, if certain of the options in the Discussion Paper were to be implemented, mutual funds would be placed at a competitive disadvantage to these other products. While we recognize that the CSA may not have jurisdiction over other types of financial products, we urge the CSA to take this into consideration and to engage in dialogue with other financial services regulators as it evaluates each of the possible topics outlined in the Discussion Paper.

Specific Comments re: Topics for Consideration in the Discussion Paper

(i) Advisor services to be specified and provided in exchange for trailing commissions – FTI supports full transparency, which includes the services that dealers and advisors provide to investors and the compensation they receive in exchange for those services. We believe that the perception of advisors' value could be enhanced if investors were aware of the many services provided by advisors and their dealer. It is important for both regulators and investors to understand that trailing commissions paid by fund companies to dealers pay for much more than the advice provided by advisors to investors – such additional dealer costs include operational, systems, administrative, compliance and regulatory costs. Given the inherent subjectivity and difficulty with monitoring and overseeing the services provided by advisors, we believe it would be very difficult to establish a defined minimum level of service for dealers and advisers to receive trailing commissions. Furthermore, we do not

believe that fund companies should be put in a position of having to withhold trailing commissions if the services are not provided. However, we do believe that dealers should be expected to educate their advisors on expected service levels and establish best practices.

(ii) A standard class for DIY investors with no or reduced trailing commission – As mentioned in our general comments above, FTI believes strongly in the value of advice. For that reason, we have chosen to offer our mutual funds through third party dealers and not directly to investors. Like many other fund companies, FTI already offers Series F with a lower management fee (since there is no trailing commission embedded), which may be appropriate for DIY investors; however, we feel it is the responsibility of dealers to offer Series F as an option for their clients and not for fund companies to create new series or classes where demand might not exist in the marketplace. In addition, FTI supports full transparency of information, including the components of a fund's MER. By providing investors with this information and with the choice of various classes, series and purchase options, we believe investors should be able to make a fully informed choice about which class, series or purchase option is most suitable for them.

(iv) Separate series or class of funds for each purchase option – FTI does not object to creating separate classes or series for each purchase option provided that the creation of new series is left to the discretion of each individual fund company. We note that cross-subsidization is an inherent element of pooled investment vehicles like mutual funds and exists in many different forms and for many of the expenses incurred by mutual funds. We are concerned that: (i) the legal, operational and administrative costs associated with creating and maintaining new classes or series, and (ii) the complexity and confusion created in the marketplace of offering new classes or series to address this issue may far outweigh any benefits derived. Furthermore, we do not believe that regulators should be mandating the types of products, classes or series that fund companies offer.

(vii) Discontinue practice of advisor compensation being set by the fund companies – As mentioned in our general comments above, FTI supports: (i) the value of financial advice, and (ii) embedded compensation as an important element of mutual funds and the most efficient way of compensating dealers for the services they and their advisors perform. Discontinuing the practice of dealer compensation being set by fund companies would be a significant change in the mutual fund industry's current business model; this initiative should not be considered without a full understanding of the consequences and implications of such a move. As a global organization, Franklin Templeton Investments operates in many jurisdictions and is familiar with the initiatives that have been adopted or proposed in other jurisdictions. Based on early evidence, we believe that banning embedded compensation could have unintended consequences, including higher costs for investors and limiting access to financial advice. As a result, the CSA should allow more time to monitor and evaluate the full effects of these initiatives in other jurisdictions before any determination is made regarding the value of similar initiatives in Canada. In the meantime, we believe the focus should be on full transparency and disclosure so that the components of an MER are better understood by investors.

Thank you for your consideration of this submission. Please feel free to contact me at 416.957.6010 should you have any questions or wish to discuss our submission.

Yours truly,

FRANKLIN TEMPLETON INVESTMENTS CORP.

Brad Beuttenmiller
Senior Associate General Counsel