FRANKLIN TEMPLETON
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**VIA EMAIL**

September 22, 2011

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 Territory
Superintendent of Securities, Nunavut

**Attention:** John Stevenson, Secretary
Ontario Securities Commission
20 Queen Street West, Suite 1903, 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 Sir/Madame:

**Re: Proposed Amendments to National Instrument 31-103 – Cost Disclosure and Performance Reporting**

Franklin Templeton Investments Corp. ("FTI") welcomes the opportunity to make a submission with respect to the *Canadian Securities Administrators ("CSA") Notice and Request for Comment on Proposed Amendments to National Instrument 31-103 and Companion Policy 31-103 Registration Requirements and Exemptions – Cost Disclosure and Performance Reporting* (the "Rule").

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FTI is a wholly owned subsidiary of Franklin Resources, Inc., a global investment organization operating as Franklin Templeton Investments. 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. In Canada, FTI has more than 600 employees providing services to almost one million unitholder accounts and almost 150 pension funds, foundations and other institutional investors.

FTI supports the attempt by the CSA to provide investors with disclosure of the charges associated with the products and services they receive and meaningful reporting on how their accounts perform. However, we do have concerns with the Rule in its current form. Our comments/concerns are as follows:

## 1. MFDA Rules

The Rule's requirements for performance reporting are vastly different from MFDA Rule 5.3.5 which comes into force in June 2012. Mutual fund dealers are currently investing a significant amount of effort and expense redesigning their statements and implementing the back office system changes necessary to comply with MFDA Rule 5.3.5. Because of the considerable differences between the Rule and MFDA Rule 5.3.5, MFDA members will need to duplicate this effort and expense in order to comply with the Rule once it comes into effect. As a result, investors will be getting two different statement overhauls in a short period of time, the costs of which will ultimately be borne by the investors. We respectfully submit that this is not in the best interests of investors.

We believe that registrants should follow a uniform set of rules as this will promote consistency in the marketplace and minimize costs to the investors. In addition, a uniform set of rules will also be more cost effective for registrants with multiple categories so that they do not need to implement numerous statements and systems to comply with the different rules. Accordingly, we respectfully urge the CSA to develop one consistent performance reporting regime that will also apply to SRO members. Since the MFDA rules were developed after years of research and consultations, present a balanced approach to performance reporting and have already been approved by the CSA, we respectfully recommend that the regulators incorporate the MFDA requirements into the Rule and delay implementation of MFDA Rule 5.3.5 until the Rule is finalized.

## 2. Cost Disclosure

While we find the intent of the Rule to help investors understand the charges associated with the products and services they receive laudable, the cost reporting mandated by the Rule is repetitive of that already required in various regulatory documents. For example, both the simplified prospectus and the fund facts document disclose, in plain language,

management fees, sales charges, sales commissions and trail fees. We respectfully submit that including this disclosure in additional regulatory documents is an unnecessary and costly endeavour. It would be more cost effective to refer investors to the existing disclosure documents in which they can find the relevant information.

In addition, the proposed requirement for client statements to include the trailing commissions paid to dealers causes concern on multiple levels. First, as mentioned above, disclosure about trail fees is already mandated in the simplified prospectus and the fund facts document. To also call for this disclosure in the client statements is a superfluous requirement. Second, the trailing commission is paid for out of the management fee paid to the manager and is not an additional charge to investors. The management fee is clearly disclosed to investors in the simplified prospectus, fund facts and MRFP and is part of the MER which is included in the MRFP and the fund financials. Disclosing trail fees separately may cause investors to double count charges under the mistaken assumption that they are paying the trail as an additional charge on top of the management fee and MER. This will result in misleading cost comparisons with other products that do not require this level of reporting. Finally, the trailing commission is currently calculated at a fund level based on the daily average AUM of the fund and then paid to dealers as appropriate. To drill down the calculation to the account holder level will require systems upgrades to integrate commission systems with client account systems. These changes will be extensive and will make the implementation of the Rule taxing on and costly for, managers, dealers and investors.

## 3. Competitive Disadvantage

The proposed amendments in the Rule focus primarily on the charges associated with mutual fund investing. We believe that the requirement to deliver detailed cost and compensation reporting would put mutual funds at a competitive disadvantage to many other investment products that are not required to provide this level of reporting. As a result, investors may perceive mutual funds to be more expensive and therefore move to the purchase of these other products. This would create an unfair selling advantage for other investment products that may be less regulated and less beneficial to investors than mutual funds. In addition, we are concerned that the imposition of this regulation may have the unintended effect of decreasing investor confidence in mutual funds.

## 4. Relationship Disclosure Information

We respectfully submit that the changes to the relationship disclosure information in Section 14.2 of the Rule include a transition period to allow registrants time to update and circulate their documents to investors. In addition, the requirement to disclose any trailing commissions or deferred charges that an investor may be required to pay is, as noted above, already sufficiently addressed in the simplified prospectus and the fund facts document.

## 5. Benchmarks

We believe that the requirement to set out benchmark information in a written agreement with a client should not apply to retail fund investors. It would be impractical to obtain client consent and to develop a customized benchmark for such a large volume of investors. In addition, we request clarification that a blended benchmark can be used for client accounts, so long as it is not manufactured using proprietary data and it represents the major asset classes into which the client's portfolio is divided. Blended benchmarks are commonly used in the industry and may be the most accurate comparison for a blended portfolio.

## 6. Transition

If the CSA proceeds with the changes proposed in the Rule despite objections raised by industry participants, we respectfully submit that the transition period should be extended to three years to give registrants enough time to implement and test the comprehensive system changes required to comply with the Rule.

## 7. Costs

As discussed above, there will be enormous costs involved in implementing (i) the statement redesign and back office systems necessary to comply with the performance reporting requirement, and (ii) the new systems necessary to calculate trailing commissions at the account level to comply with the cost reporting requirements. These implementation costs will be significant and will be borne, in whole or in part, by investors. We respectfully submit that the costs imposed on the investors will strongly outweigh any benefits achieved. Therefore, we urge the regulators to complete a meaningful cost benefit analysis before proceeding with the Rule.

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Thank you for your consideration of this submission. Please feel free to contact my colleague Robyn Mendelson at 416.957.6051 or 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 Vice-President & Chief Counsel, Canada