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Alberta Securities Commission
Autorité des marchés financiers
British Columbia Securities Commission
Financial and Consumer Services Commission (New Brunswick)
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Nova Scotia Securities Commission
Nunavut Securities Office
Office of the Superintendent of Securities, Newfoundland and Labrador
Ontario Securities Commission
Office of the Superintendent of Securities, Northwest Territories
Office of the Yukon Superintendent of Securities
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island

The Secretary
Ontario Securities Commission
20 Queen Street West
22nd Floor
Toronto, Ontario M5H 3S8

Me Philippe Lebel
Corporate Secretary and Executive Director,
Legal Affairs
Autorité des marchés financiers
Place de la Cité, tour Cominar
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Québec (Québec) G1V 5C1

Dear Sirs and Mesdames:

RE: CSA and CCIR Joint Notice and Request for Comment – Proposed Amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (“NI 31-103”) and to Companion Policy 31-103CP *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (“31-103CP”) and to Proposed CCIR Individual Variable Insurance Contract Ongoing Disclosure Guidance Total Cost Reporting for Investment Funds and Segregated Funds (the “Consultation”)

Franklin Templeton Investments Corp. (“**Franklin Templeton Canada**”) appreciates the opportunity to comment on the Consultation. Our comments are limited to the Canadian Securities Administrators’ (“**CSA**”) proposals for the securities sector in the Consultation (the “**Securities Laws Proposals**”) in the form of amendments to NI 31-103 and 31-103CP.

Franklin Templeton Canada is registered as an investment fund manager, portfolio manager, mutual fund dealer and exempt market dealer with the securities regulatory authorities in various Canadian provinces and territories. Franklin Templeton Canada is an indirect, wholly owned subsidiary of Franklin Resources, Inc. [NYSE:BEN], a global investment management

organization with subsidiaries operating as Franklin Templeton and serving clients in over 155 countries. Franklin Templeton's mission is to help clients achieve better outcomes through investment management expertise, wealth management and technology solutions. Through its specialist investment managers, the company offers boutique specialization on a global scale, bringing extensive capabilities in equity, fixed income, multi-asset solutions and alternatives. With offices in more than 30 countries and approximately 1,300 investment professionals, the California-based company has 75 years of investment experience and approximately US\$1.4 trillion (approximately CAN\$1.8 trillion) in assets under management as of June 30, 2022.

General Comments

Franklin Templeton Canada supports the CSA's initiative to expand cost reporting to investors because we believe increased fee transparency and awareness will assist investors in making informed investment decisions. Furthermore, although we have not commented on the proposals for the insurance sector in the Consultation, we are pleased that this is a joint initiative of the CSA and the Canadian Council of Insurance Regulators. Including segregated funds in the proposals will bring their disclosure standards more in line with investment funds allowing for better comparability between these competing investment products.

Franklin Templeton Canada is a member of the Investment Funds Institute of Canada ("IFIC") and generally supports the submissions made by IFIC with respect to the Securities Law Proposals. In addition, Franklin Templeton Canada wishes to provide comments on the Securities Law Proposals in areas we believe merit additional emphasis.

Account Statement Requirements

Franklin Templeton Canada is of the view that including a fund expense ratio ("**FER**"), which is the sum of the management expense ratio ("**MER**") and the trading expense ratio ("**TER**"), on quarterly (or monthly) client account statements for each individual investment held in an account is not desirable because it would be confusing, misleading and duplicative of information already provided to investors.

The requirement to include FER could be confusing to investors because it would be different in form (percentage vs. dollars) and for a different time period than other client account statement disclosure. Furthermore, the inclusion of an FER of a particular fund series without corresponding performance information could result in investors making decisions solely based on cost instead of the entire value proposition of the fund they have purchased. Including an FER on a client account statement is conflating the policy principles of investment fund continuous disclosure with the rationale behind individualized client account statements, which we believe would lead to investor confusion.

The requirement to include FER could be misleading because it is not specific to an investor and would not give them information unique to their situation when the balance of the information on a client account statement is personalized. The inclusion of FER also fails to capture other information (e.g., for Series F, fees paid directly by the investor to their advisor) and would, therefore, give an inaccurate picture of an investor's cost.

Including FER is duplicative and redundant because the MER and TER of a fund is already disclosed in a fund's management report of fund performance, fund facts and/or ETF facts documents. As a result of the January 2022 amendments to National Instrument 81-106 – *Investment Fund Continuous Disclosure*, investment funds must have a designated website on which these documents are posted, which makes this information more easily available to investors.

Requirement to Include TER

Franklin Templeton Canada believes that the TER should not be combined with the MER for the FER value used in the calculation of total fund expenses disclosed in the Annual Report on Charges. There are various issues with including the TER. A TER exhibits a higher degree of variability depending on fund flows and changes in portfolio holdings and can be distorted by significant purchases or redemptions of a fund. Furthermore, applying a TER as of a specific point in time could lead to inaccurate disclosure to an investor. In contrast, an MER is more stable and accurate for purposes of calculating fund expenses. For these reasons, Franklin Templeton Canada recommends that the CSA consider using the MER for calculating fund expenses for the purposes of the Annual Report on Charges.

Foreign Investment Funds

Franklin Templeton Canada believes that foreign investment funds should not be included in the Securities Law Proposals. Foreign investment funds may not report MERs or TERs and/or their calculation methodology may be different. Furthermore, the investment fund managers of these funds may not be registered in a Canadian jurisdiction and would, therefore, not be subject to NI 31-103. As a result, obtaining the necessary data could be difficult. If the burden on dealers to obtain this information is too great, they may choose not to offer foreign investment funds to their clients, resulting in less choice for investors.

Proposed Implementation Timeline

Franklin Templeton Canada urges the CSA to re-consider its proposed timeline for the implementation of the Securities Law Proposals as the current timeline is neither reasonable nor practical.

It is unrealistic to expect registrants to begin implementation of this regulatory initiative by securing the necessary budget approvals, devoting resources and effecting the necessary systems changes until the CSA publishes final rule amendments and registrants have certainty regarding the new reporting requirements.

An additional constraint is the timeline that Fundserv, the investment fund industry's service provider, has for designing, coding and publishing system changes. Fundserv's timelines largely dictate the timelines for fund managers and dealers. Registrants cannot begin their work to implement the new regulatory requirements until Fundserv publishes its final technical solution.

The CSA's proposed timeline would be more challenging for registrants that manage or trade in exchange-traded funds ("ETFs") because of the lack of infrastructure to transmit and retain the data needed to comply with the Securities Law Proposals. Since there is no central

repository like Fundserv for ETFs, there is uncertainty as to how the necessary information will be transmitted by investment fund managers to dealers and how dealers will obtain and store the information.

The proposed timeline for implementation of the Securities Law Proposals also conflicts with another significant regulatory initiative – the move from T+2 to T+1 – which is proposed to take effect in September 2024. Implementing both projects at the same time will require significant resources, presenting a large burden for, and increased risks to, registrants.

Finally, we note that when the final CRM2 changes were announced, industry participants were provided with a three-year transition period for the new annual report requirements. Since the Securities Law Proposals are more complex and require new FER data to be created, we ask the CSA to consider a timeline of similar or greater length after final rule amendments are published.

Conclusion

Whatever form the final Securities Law Proposals take, we expect this to be a complex change for the investment funds industry. Therefore, we encourage securities regulators to establish an industry forum and to work with the industry in a collaborative manner to address the myriad of questions and issues that are likely to arise during implementation.

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

Yours truly,

FRANKLIN TEMPLETON INVESTMENTS CORP.

“Brad Beuttenmiller”

Brad Beuttenmiller
Senior Associate General Counsel

cc: Duane Green, President & CEO, Franklin Templeton Canada