Franklin Templeton Investments TORONTO, ONTARIO

1 Adelaide Street East
Suite 2101
Toronto, ON
Phone: (416) 957-6000 Fax: (416) 364-6615

TO: **John Stevenson, Secretary**
Ontario Securities Commission

Denise Brousseau, Secretary
Commission des valeurs mobilieres du Quebec

FROM: **Lisa Johnson, Vice President & Chief Counsel, Canada**
Franklin Templeton Investments Corp.

DATE: **June 7, 2002**

RE: **Comments on Concept Proposal 81-402 "Striking a New Balance: A Framework for Regulating Mutual Funds and their Managers" (the "Proposal")**

We have the following comments on the Proposal:

03. Do you agree that labour sponsored investment funds (where applicable) and commodity pools should be subject to the same regulatory scheme as other mutual funds (considering specialized rules that we already have for these specialized mutual funds)? If not, why?

We believe that all forms of mutual funds sold to "retail" investors, including but not limited to labour sponsored investment funds, segregated funds and closed-end funds should be subject to the same regulatory scheme. However, pooled funds or any other form of mutual fund sold on a private placement basis to "accredited investors" or to those purchasing in excess of $150,000 or $97,000, as applicable, should not be governed by the same regulatory scheme as prospectus qualified mutual funds.

04. Which parts of our renewed regulatory framework should be extended or not extended to other investment vehicles – and which investment vehicles? Why do you believe the particular regulation should or should not be extended? What is the essential difference or similarity between the particular investment vehicles that mean they should be regulated differently or the same?

The concept of an IGA should be extended to all mutual funds or similar products available to "retail" investors. We believe that imposing an IGA regime on pooled funds available only through private placement would result

in significantly fewer choices for sophisticated investors due to the additional cost barriers associated with the creation of such an agency. In addition, we believe that sophisticated investors would feel that the costs associated with imposing such a structure on a pooled fund would be excessive given their level of sophistication and the degree of protection that needs to be afforded to such investors.

05. Although we do not address the fifth pillar of our proposed framework we invite you to give us your ideas on how we could better carry out our role as regulator.

We believe that the creation of a single, national regulator should be the foremost priority of the CSA. We believe that a uniform approach to securities regulation is essential to Canadian mutual fund managers so that they can remain competitive in a global economy and to Canadian investors in order that they may be offered a greater choice of investment products.

13. Does the definition of independent members make sense to you? Will it be easy to apply to potential governance agency members? If not, can you suggest an alternative definition or the clarifications you think are necessary? What do you think about whether or not we should require a majority of all members to be independent?

The definition of independent members does make sense and needs clarification in respect to permitting those persons who may hold investments in the mutual funds, or who have a relationship with the manager whereby they receive investment advisory services from the mutual fund manager, to be members of the IGA. It is difficult to know if those persons would be considered "independent" under the definition and whether this relationship could be seen to "materially influence" the member's oversight of the mutual fund manager. Persons with investments in the mutual fund or who receive investment management services from the manager would have interests closely aligned with those of other investors and should be permitted to serve as independent members on an IGA. We believe that a majority of the members on the IGA should be independent but that not all members need to be independent. We feel it is absolutely necessary to have representation from the manager on the IGA in order to explain business processes of the manager.

17. The Fund Governance Committee of the Investment Funds Institute of Canada (IFIC) recommends that we limit the liability of a governance agency member for breaches of the standard of care to $1 million. In part because members of boards of directors of corporate mutual funds will not have this limitation on their liability we do not propose to regulate any limits on liability. Also, we are not convinced such a limitation is in the public interest. What are your views?

If IGA members are to be liable in the event of a breach in their standard of conduct, they must have very clearly defined roles and responsibilities. We cannot comment on the issue of limiting the liability of the members of the IGA to $1 million without a better understanding of the degree of authority

that the IGA will exercise over the fund manager and its operations. We feel that the degree of liability must be directly linked to the degree of authority provided to such an agency.

22. Should investors who do not like the elected/appointed governance agency members be allowed to exit without penalty?

We are unsure of what is meant by the CSA when using the word "penalty". If the CSA is suggesting that the redemption charge on deferred sales charge units be waived under these circumstances, we strongly disagree.

24. Will the governance agency have sufficient powers in the event of a dispute with a fund manager? Will it be able to discharge its functions properly? If not, can you suggest alternatives for effective dispute resolution? If you do not agree with our discussion on the powers to terminate the fund manager, please explain why you disagree.

We believe that the IGA should not have the unilateral power to terminate the manager. The IGA should have the ability to call a unitholder meeting in this regard and make a recommendation to terminate the manager to unitholders. Ultimately the decision to terminate a manager must be left to unitholders, as they would be most impacted by a change of this magnitude.

25. What do you think about our suggested approach for dealing with non-performing fund governance agencies or individual members? Do investors or fund managers need any additional powers or information?

We believe that members of an IGA would have the best insight on whether its other members are performing or not. The agency members, rather than the manager or the unitholders, should have the authority to terminate an IGA member. The fund manager should have the ability to call a unitholder meeting in the event that it wishes to recommend that the entire governance agency be terminated.

31. Do you believe a minimum capital requirement is justified? What do you think about the three options that have been recommended to us? Can you suggest an alternative option?

We do not understand the need for the minimum working capital requirement to increase in proportion to the assets held under management by the fund manager. We do not feel there is a significant correlation between total assets under management and the assets required by a manager to perform its duties.

39. Upon reading the staff research paper, what are your views on the costs of our proposals versus the benefits? Should we take into account other costs? Other benefits?

The chief economist of the Ontario Securities Commission estimates that the costs of creating and operating an IGA will represent no more than 0.016% of

the total industry assets under management with one time estimated set up costs for the industry being $17.9 million.

We believe that a number of costs have not been factored into these estimates including the costs of reporting requirements to unitholders for resignations of members, new appointments, annual reports on performance, the costs of educating IGA members, the costs of having staff members sit on the IGA, the costs incurred by IGA members in seeking independent third party professional advice and the cost of IGA member insurance.

Sincerely,

FRANKLIN TEMPLETON INVESTMENTS CORP.

"Lisa Johnson"

Lisa Johnson
Vice President and Chief Counsel, Canada

H:\LGROUP\LEGAL\WORD\Fund Governance\CSAcomments.doc