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INVESTMENTS

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VIA EMAIL

October 16, 2009

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
Registrar of Securities, Northwest Territories
Superintendent of Securities, Yukon Territory
Registrar 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: CSA Notice and Request for Comment on Implementation of Point of Sale Disclosure for Mutual Funds

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 Implementation of Point of Sale Disclosure for Mutual Funds* (the "Rule").

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 more than one million unitholder accounts and almost 200 pension funds, foundations and other institutional investors.

FTI supports the attempt by the CSA to provide investors with disclosure in a simple, accessible and comparable format. FTI also appreciates that the CSA has taken into consideration some of the comments received on *Framework 81-406 – Point of Sale Disclosure for Mutual Funds and Segregated Funds* (the "Framework"). However, we do have concerns with the Rule in its current form. Our comments/concerns are as follows:

1. Delivery Requirements

(a) Competitive Disadvantage

As noted in our comment letter on the Framework, we believe that the requirement to deliver the two page fund summary document (the "Fund Facts") before or at the point of sale would put mutual funds at a competitive disadvantage to many other investment products and may cause dealers or investors to 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 to product arbitrage, the requirement to deliver the Fund Facts documentation before or at the point of sale would put independent fund companies that rely on third party distribution at a competitive disadvantage since dealers may not want to manage such a large volume of documents and therefore may reduce the number of funds or series that they offer. This would correspondingly reduce the choice of funds or series provided to investors.

To the extent that the CSA proceeds with the requirement to deliver the Fund Facts documentation before or at the point of sale, we respectfully submit that these delivery requirements should be simultaneously imposed on other products such as exchange traded funds, closed end funds, hedge funds, securities listed on exchanges, etc. This will: (i) prevent mutual funds from being used as a test case for the new legislation; (ii) create a level playing field whereby all products are subject to the same disclosure requirements, which will in effect negate the competitive disadvantage placed on mutual funds; and (iii) extend the benefits of this legislation to all products, thereby enhancing investor protection.

We understand that one of the goals of the Rule is to reinforce investor confidence in mutual funds but we are concerned that the imposition of burdensome regulation that will apply only to mutual funds may have the unintended effect of decreasing investor confidence in mutual funds.

(b) Loss of Investor Choice

Mandating when investors receive the Fund Facts document eliminates investors' choice to receive the document before or after their advisor completes the transaction. Investors should be able to choose to receive the Fund Facts document at a time that is convenient for them.

As mentioned above, dealers will likely narrow the shelf of fund families that they carry as a practical consequence of the volume of Fund Facts documents. In addition, investment advisors may physically carry less Fund Facts documents with them when meeting with their clients. Moreover, as discussed above, advisors may support other products that are easier to sell to their clients on short notice. All of this results in less choice for investors.

Accordingly, we urge the CSA to consider this issue further and the negative impact the proposed delivery requirement would have on the industry and investors. We recommend that where practicable, the Fund Facts document should be delivered at the point of sale. Where it is not practicable to deliver it at the point of sale, the Fund Facts document should be delivered as soon as possible after the point of sale but no later than the mailing of the related trade confirmation to the investor.

(c) Potential Delays in Trading

The requirement that the Fund Facts be delivered at or before the point of sale may result in trades being delayed. For example, when meeting with an investor in person, the trade may be delayed if an investment advisor does not have the appropriate Fund Facts available with him/her. When conducting a sale by phone, the trade may be delayed if the investor does not have immediate access to a fax machine or a computer. Any such trade delay may result in a loss to the investor. We respectfully submit that this is not fair to investors who want their transactions completed immediately and it is not consistent with the goal of putting investors' needs first.

(d) Method of Delivery

We appreciate that the Rule provides for some flexibility in the delivery of Fund Facts in that it may be delivered in person, by prepaid or registered mail, fax, electronically or other means. However, the Rule requires dealers to not only deliver the Fund Facts at or before the point of sale, but also to bring the Fund Facts to the attention of the purchaser. This is not currently required with respect to the delivery of a fund prospectus, annual information form or management report of fund performance ("MRFP") and we do not believe it is necessary to impose this requirement on the delivery of the Fund Facts. Should this requirement remain in the Rule, then, as canvassed in the Issues for Comment on the Instrument ("Instrument Issues for Comment") #2, we submit that the guidance provided on this requirement is not sufficient and it is necessary that either the Rule or

the companion policy thereto (the "Companion Policy") better identify how the CSA envisions dealers bringing the Fund Facts to the attention of the purchaser.

The Companion Policy also requires dealers to maintain adequate records to evidence that the Fund Facts has been brought to the attention of investors. It should be noted that this layers additional compliance requirements on what, as discussed below, is already a compliance laden rule.

With respect to electronic delivery, the Companion Policy provides that electronic delivery may include sending an electronic copy of a Fund Facts directly to the investor as an attachment or a link, or directing the investor to a specific Fund Facts on a website. We submit that making the Fund Facts document available on the manager's website should be sufficient to satisfy these delivery requirements, especially where the investor consents to that method of delivery.

(e) Waiver of Delivery

The Rule builds in a waiver mechanism for money market funds or purchases that are not recommended by a dealer so long as the dealer has informed the investor of the existence and purpose of the Fund Facts and has explained that the investor may choose to receive the Fund Facts before entering into the agreement to purchase. To the extent that the CSA proceeds with the requirement to deliver the Fund Facts before or at the point of sale, then we recommend that this waiver concept be extended beyond these limited circumstances such that investors may be able to avail themselves of a waiver of the Fund Facts document at all times. Accordingly, we applaud the approach considered in Instrument Issues for Comment #4, and agree that the Fund Facts should be delivered with the confirmation of trade in instances where the investor expressly communicates that they want the purchase to be completed immediately and it is not reasonably practicable for the dealer to deliver or send the Fund Facts before the purchase is completed.

(f) Subsequent Purchases

As canvassed in Instrument Issues for Comment # 3, we do not believe that the delivery of the Fund Facts for subsequent purchases is necessary. There is not presently a requirement for investors to receive a current copy of the simplified prospectus upon a subsequent purchase and we are unaware of the policy reason for requiring that Fund Facts be delivered for subsequent purchases to investors who already own the fund and will have access to current information about the fund, including annual and semi-annual financial statements and semi-annual MRFPs. If desired, an investor can always ask their dealer for an updated copy of the Fund Facts. In the event that Fund Facts are required to be delivered with subsequent purchases, then we respectfully submit that they should only be required to be delivered after the point of sale with the confirmation of trade.

(g) Annual Option to Receive Fund Facts Document

In response to the note to reader following Section 3A.5 of the Rule, we recommend removing the annual option to receive Fund Facts. There is not presently an option for investors to receive a copy of the simplified prospectus on an annual basis and we are not aware of the policy reason for the annual option to receive Fund Facts by existing investors who have access to current information about the fund, including annual and semi-annual financial statements and semi-annual MRFPs. We also do not believe that the removal of the annual option to receive the Fund Facts should be tied to the inclusion of the subsequent purchase requirement. We respectfully submit that they are both superfluous to the initial and ongoing disclosure requirements and therefore should not be included in the Rule.

2. Exemptions from Pre-Sale Delivery Requirements

(a) Accredited Investors

We believe that the Fund Facts delivery requirement should not apply to accredited investors. Accredited investors are in a position to make an informed decision before they purchase a fund - they are sophisticated and are familiar with the information about a fund that they would otherwise obtain in a Fund Facts.

3. Fund Facts

(a) Series

The Rule contemplates that one Fund Facts document will have to be produced for each class or series of a fund. We believe that the sheer volume of documents produced would lead to administrative difficulties at the fund manager level, the dealer level and the salesperson level and could potentially lead to errors in delivering the correct Fund Facts to an investor. In addition, as mentioned above, the narrowing of dealer shelves due to the high volume of Fund Facts documents will result in loss of choice to the investor. Moreover, while we appreciate that the Rule is trying to achieve a document that allows investors to easily compare funds, advancing one Fund Facts document per series may not achieve that goal since different fund managers use different letters of the alphabet to name their series which may make any comparison of funds from different fund families confusing. Accordingly, we respectfully submit that the Fund Facts should be created at the fund level and not at the series level.

However, to the extent that the CSA proceeds with the requirement to produce Fund Facts at a series level, we recommend that fund managers be provided with the flexibility to combine more than one series in a Fund Facts document where practicable. For example, many fund managers have two series of a fund that are virtually identical except for the fact that one series is designed for investors seeking regular monthly cash flow.

In response to Issues for Comment on Form 81-101F3 *Contents of Fund Facts Document* ("81-101F3 Issues for Comment") #2, the Investment Funds Institute of Canada has attached a sample template for Fund Facts which combines multiple series. This template could potentially be further simplified by consolidating the graphs for different series showing the year-by-year returns in the "How has the fund performed section" into one graph with different bars representing different series in the same graph. We therefore submit that it is possible to combine different series into one Fund Facts document without unduly lengthening it and without it being confusing for investors.

(b) Binding

We find the Rule's flexibility to allow some binding of the Fund Facts laudable. However, in response to Instrument Issues for Comment #5, we urge the CSA to allow the number of Fund Facts to be consolidated into one document to be determined by the fund manager and the dealer so long as the principles of simplicity, accessibility and comparability are maintained. We also recommend that the ability to bind different Fund Facts in one instrument should apply irrespective of the method of delivery. We respectfully disagree that an electronic link or directing an investor to a file containing multiple Fund Facts would constrain an investor's ability to download, find and print the specific Fund Facts. Therefore, the carve out in subsection 5.4(2) of the Rule preventing the binding of Fund Facts documents if they are delivered electronically should not be retained.

(c) Flesch-Kinkaid Grade Level

We respectfully submit that, similar to existing disclosure regimes, the Fund Facts document should be provided in plain language. As acknowledged in the Companion Policy, plain language helps communicate in a way that ensures the audience can immediately understand what they are being told. Thus, we submit that so long as the Fund Facts is presented in plain language, it is unnecessary for it to present information at a grade level of 6.0 or less on the Flesch-Kinkaid grade level scale. We also recommend that the requirement for the manager to provide a signed letter to the regulator specifying the Flesch-Kinkaid grade level of the Fund Facts be omitted. This is not required for other similar disclosures and as long as there is a statutory requirement that the Fund Facts be provided in plain language, managers will have to comply with that requirement and a certification should not be necessary.

(d) Management Expense Ratio

As canvassed in 81-101F3 Issues for Comment #2, we agree with the current instructions in Form 81-10F3 requiring that the management expense ratio ("MER") disclosed in the Fund Facts be the same as that disclosed in the most recently filed MRFP for the fund. We do not think that it is more appropriate to require disclosure of the MER without waivers or absorptions since that does not reflect the true MER incurred. In addition, it

will be difficult for investors to accurately compare an investment in different funds if the MERs reported are not that which are currently charged by such funds.

(e) Trading Expense Ratio

In response to 81-101F3 Issues for Comment #8, we do not think that it is necessary to disclose the trading expense ratio in the Fund Facts. This is not currently included in the simplified prospectus and is sufficiently captured in MRFPs provided to an investor.

(f) Updating Fund Facts

We appreciate that the CSA is considering allowing fund managers greater flexibility with respect to how frequently they may file an updated Fund Facts. However, in response to Instrument Issues for Comment #1, our view is that it would be a huge undertaking for fund managers to update Fund Facts any more frequently than annually or upon a material change and therefore this greater flexibility is not necessary. In addition, more frequent updating of Fund Facts could potentially lead to errors in delivering the correct Fund Facts to an investor.

4. Compliance

We respectfully submit that it will be quite onerous from a compliance perspective to meet the various aspects of the Rule. Although the Rule does not specifically mandate obtaining a written receipt of the Fund Facts by investors, as currently structured, the Rule will effectively require dealers to track, at minimum: (i) the delivery and receipt of the Fund Facts, (ii) whether a trade was "dealer recommended" or "investor initiated", (iii) whether the trade was an "initial purchase", and (iv) whether the trade was for a money market fund. As a result, dealers may ask investors to sign an acknowledgement which, when added to all of the other paperwork required of mutual fund investors, may influence them to invest in a different product. The Companion Policy states that existing dealer practices for maintaining evidence of required disclosures should be sufficient to document delivery of the Fund Facts. However, it is our understanding that the proposed Fund Facts regime will require new evidentiary processes be put in place. These numerous compliance challenges will make the implementation of the Rule taxing on, and costly for, both dealers and investors.

5. Transition

We support a transition period which provides for the earlier dissemination of Fund Facts to investors. However, it is difficult to determine whether the transition period for delivery is appropriate until the outstanding issues relating to delivery and waivers are settled. Once settled, the amount of time required to implement compliance processes and procedures related to delivery can be properly gauged. In addition, the Rule contemplates that it will be necessary to send out a Fund Facts for all first purchases of a

mutual fund that occur following the date the Rule comes into force irrespective of whether or not the fund is already in an investor's account or delivered during the transition period. We respectfully submit that the Fund Facts should only be required to be delivered for "initial purchases", rather than "first purchases", following the date the Rule comes into force.

6. Costs

As canvassed in Issues for Comment on the Notice and Request for Comment #2, we respectfully disagree with your perspective on the cost burden of the Rule. While we are unable to determine the precise cost burden until different elements of the Rule are solidified, it is apparent now that the implementation costs will be considerable and will be borne, in whole or in part, by investors. We urge the regulators to streamline the existing disclosure regime for mutual funds at the same time as the Fund Facts legislation is ready for implementation so that any cost reductions due to the harmonization of disclosure documents can be realized at the same time as the move to Fund Facts. However, it should be noted that any such cost reductions may be outweighed by the costs incurred to prepare the Fund Facts document on a series basis.

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