FRANKLIN TEMPLETON
INVESTMENTS

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VIA EMAIL

September 24, 2010

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: Proposed Amendments to NI 81-102 Mutual Funds and NI 81-106 Investment Fund Continuous Disclosure

Franklin Templeton Investments Corp. ("FTI") welcomes the opportunity to make a submission with respect to the *Canadian Securities Administrators ("CSA") Notice of Proposed Amendments to National Instrument 81-102 Mutual Funds and to National Instrument 81-106 Investment Fund Continuous Disclosure and Related Consequential Amendments* (the "Amendments").

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

FTI supports the CSA's efforts to modernize the rules that apply to publicly offered mutual funds in Canada. However, we do have concerns with the Amendments in their current form. In particular, we believe that the proposed amendments to the average term-to-maturity and the new liquidity requirements are unnecessary and may cause adverse, unintended consequences to money market funds and their investors.

1. **We seek feedback on whether you agree or disagree with the 90 and 120-day dollar-weighted average term-to-maturity and whether there should be any limit on the exposure of a money market fund to floating rate notes.**

We disagree with the proposal for a two-tiered dollar-weighted average term calculation. In particular, we disagree with the idea of using a 120-day term-to-maturity limit that is calculated based on the actual term-to-maturity for all securities in a money market portfolio rather than on the reset dates for floating rate notes. We do not believe that this amendment will further its intended objective of investor protection.

Floating rate notes are primarily associated with two types of risk: (1) interest rate risk, which is very low as the coupon is usually reset every 30 or 90 days; and (2) credit risk, which is higher due to the longer ultimate maturity dates of these instruments. While we concur that securities with shorter maturity dates typically carry less risk, we believe it is not fair to make that conclusion on an absolute basis (i.e. government bonds versus corporate bonds). Shrinking the dollar-weighted average term-to-maturity to include calculations based on the long maturity date, essentially removes risk management duties from the portfolio manager. However, it remains the portfolio manager's responsibility to protect the interests of his/her clients. With respect to money market mutual funds, capital preservation takes precedence over interest income generation and this is a responsibility that portfolio managers are capable of undertaking.

There is already a high degree of liquidity in the money market funds. In our view, amending the term-to-maturity limits would do little to improve their liquidity position. Given the other proposed liquidity restrictions, only a small percentage of a money market fund would be eligible to invest in floating rate notes in any event. Moreover, we have found using maximum portfolio weights to be an effective means of controlling risk related to the floating rate note asset class. It is also important to note that overly

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restrictive rules can exacerbate illiquidity in times of market turbulence as many portfolio managers could suddenly find themselves on the same side of the trade and inadvertently drive prices down in order to sell the offending securities and return to compliance.

We suggest that another, less restrictive way to achieve the objective of investor protection would be to place a maximum term limit on individual floating rate note issues (i.e.: five years).

2. **We also seek feedback on whether the 90-day limit should be reduced to a shorter time frame as is the case in the money market fund rules approved by the United States Securities and Exchange Commission on January 27, 2010, which specify a 60-day limit.**

We support maintaining the current 90-day limit on the dollar-weighted average term-to-maturity instead of imposing a shorter time frame. Should a money market fund be hit by a series of large redemptions requiring that short-term cash equivalents be sold, the average term-to-maturity would rise inadvertently. It would benefit money market fund unitholders if portfolio managers retain some flexibility in meeting proposed liquidity requirements. This could be facilitated by maintaining the 90-day dollar-weighted average term limit rather than reducing it.

In the interest of improving investor protection, an oft-cited reason for reducing average term-to-maturity is to protect against interest rate risk. However, when there is a crisis, treasury yields drop either due to a flight to quality or because central banks have cut administered interest rates, or both. In fact, during these periods, liquidity and credit risk are the more prevalent risks. Unfortunately, reducing the dollar-weighted average term-to-maturity would do little to decrease these risks during a crisis.

In times of market stress, it is treasury bills, and in particular the longer dated ones (i.e. 6-12 months), that appreciate the most in value as flight to quality trades are executed. This was evident in the credit crash during the fall of 2008. As such, holding longer-dated treasury bills in a money market portfolio can provide an additional valuation cushion in times of stress. Consequently, being a forced seller of these securities due to a large withdrawal would be counterproductive to improving investor protection.

3. **General Comments**

As a general comment, we believe that the more specific and numerous the money market rules are, the more difficult it becomes to manage money market funds effectively and in some cases decisions are made in order to bring a portfolio back into compliance, which may not always be the most prudent approach. For example, where there is a crisis or other event-driven increase in market risk, there could be negative repercussions and

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significant unintended consequences if a money market fund was mandated to maintain short term maturities and was simultaneously hit with a number of large withdrawals. Such a rule would force the money market fund to sell longer dated securities and reinvest the proceeds into shorter dated securities instead of letting the term of the longer ones roll down with the passage of time. This could have the effect of locking in paper losses that might not otherwise materialize. In addition, selling longer dated paper (at higher yields within the context of a normally shaped yield curve) and reinvesting the proceeds into shorter dated and lower yielding paper in order to comply with securities regulations would likely increase the reinvestment risk to which investors would be exposed. We believe that the regulatory regime governing money market mutual funds should be drafted in such a way as to provide portfolio managers with the time and flexibility necessary to bring their funds back into compliance when faced with a crisis or other event-driven increase in market risk.

If the CSA implements the proposed amendments, then we would strongly recommend that current money market fund holdings be grandfathered or that a transition period of at least one year be provided. This would allow portfolio managers the time to revise their portfolios in the normal course, to minimize market disruptions and to protect investors from the volatility that changing regulatory requirements could cause.

Thank you for your consideration of this submission. Please feel free to contact my colleague Ariane Farrell 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

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