IN THE MATTER OF THE SECURITIES ACT
R.S.O. 1990, c.S.5, as amended

- and -

FRANKLIN TEMPLETON INVESTMENTS CORP.

STATEMENT OF ALLEGATIONS

Staff of the Ontario Securities Commission ("Staff") make the following allegations:

I. Background

1. In November 2003, the Commission, in co-operation with the Investment Dealers' Association of Canada and the Mutual Fund Dealers Association of Canada, began an inquiry into potential late trading and market timing in the Canadian mutual fund industry. The inquiry involved 105 Canadian mutual fund companies, and has been carried out in three phases. The inquiry was completed in December 2004, and involved a number of mutual fund managers.

II. The Respondent

2. Franklin Templeton Investments Corp. ("Franklin Templeton") is registered in Ontario as a mutual fund dealer, and adviser, and is responsible for the management of approximately 90 mutual funds ("Franklin Templeton Funds") with mutual fund assets under management of approximately $18.6 billion (as of October 31, 2004).

III. Market Timing: Cause and Effect

3. Market timing involves short-term trading of mutual fund securities to take advantage of short term discrepancies between the "stale" values of securities within a mutual fund's portfolio and the current market value of those securities. Stale values can occur in mutual fund portfolios comprised, in whole or in part, of non-North American foreign equities. Stale values of those securities may result in stale values of the units of a mutual fund as a result of the way in which the net asset value ("NAV") of most mutual

funds is calculated for the purpose of determining the price at which an investor may purchase or redeem (buy or sell) a unit of the fund.

4. A market timer will attempt to take advantage of the difference between the "stale" value and an expected price movement of a fund the following day by trading in anticipation of those price movements.

IV. The Harm Caused by Market Timing of Mutual Funds

5. When certain investors engage in frequent trading market timing in foreign funds, and when those investors are not required to pay a proportionate fee to the fund, the economic interest of long-term unitholders of these foreign funds is adversely affected. Significant harm may be incurred by a fund in which frequent trading market timing occurs. Any such harm would be borne by all investors in the fund. In addition to dilution[1], market timing in a fund also may result in certain inefficiencies in that fund. Those inefficiencies, which will vary depending upon the particular fund, may involve increased transaction costs and disruption of a fund's portfolio management strategy (including the maintenance of cash or cash equivalents and/or monetization of investments to meet redemption requirements) and may impair a fund's long-term performance.

V. The Disclosure of Franklin Templeton Simplified Prospectus and AIF

6. Specific statements contained in the Prospectuses and AIFs filed by Franklin Templeton for the years 1999 to 2003 (although not identical from year to year) disclosed that Franklin Templeton could take certain steps, including the right to limit switches between Franklin Templeton Funds and to impose short term trading fees of up to 2% in circumstances where an investor seeks to redeem units of a Franklin Templeton Fund within 90 days of having purchased the units.

VI. Market Timing in Franklin Templeton Funds

7. Certain investors holding accounts in Franklin Templeton Funds have been identified as having profited as a result of frequent trading market timing strategies that were pursued in certain Franklin Templeton Funds (the "Market Timing Traders"). The Market Timing Traders traded in Franklin Templeton Funds through one or more Canadian investment dealers.

VII. The Fund Manager's Duty

8. A mutual fund manager is required by Ontario securities law to exercise the powers and discharge the duties of its office honestly and in good faith and in the best interests of the mutual fund and, in connection therewith, to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in the circumstances.

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[1] Dilution of a fund's value caused by market timing can be calculated by taking the percentage difference between the fund's stale price and current market value multiplied by the amount invested.

Compliance with this duty requires that a mutual fund manager have regard to the potential for harm to a fund from an investor seeking to employ a frequent trading market timing strategy and take reasonable steps to protect a mutual fund from such harm to the extent that a reasonably prudent person would have done in the circumstances.

VIII. CONDUCT CONTRARY TO THE PUBLIC INTEREST

9. In allowing certain investors to engage in frequent trading market timing, Franklin Templeton did not implement appropriate measures to protect the funds against the harm arising from frequent trading market timing activity.

10. The conduct of Franklin Templeton in failing to protect fully the best interests of the Relevant Funds in respect of the frequent trading market timing was contrary to the public interest.

11. Staff reserve the right to make such other allegations as Staff may advise and the Commission may permit.

Dated this 28th day of February, 2005