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Franklin Templeton Scraps Redemption Fees

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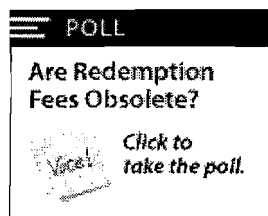
By [Kevin Burke](#)

Franklin Templeton, the mutual fund arm of Franklin Resources, is dumping redemption fees on all of its funds, joining a growing list of fund advisors that are eliminating the deterrent to excessive trading.

The boards of directors for each of the affected Franklin, Templeton and Mutual Series funds decided the firm will no longer impose a 2% redemption fee on shares redeemed within seven days of purchase. That decision was made at a series of meetings held in May, according to a recent regulatory filing. The move is effective September 2, 2008.

After evaluating its experience with redemption fees, senior leadership determined that the penalty fees were not needed to thwart would-be market timers. "Management found that other measures designed to prevent harmful short-term trading, including comprehensive monitoring and oversight of trading activity by Franklin Templeton's Trade Control Team and rigorous fair value pricing processes, were sufficient and that redemption fees did not provide any meaningful additional protection," says Matt Walsh, a Franklin spokesman.

Further, management discovered that there was no link between accounts that had been assessed redemption fees and those that showed signs of suspicious trading activity. "On that basis, the fund boards concluded that



the fees were neither necessary

nor appropriate," Walsh says.

Franklin has imposed redemption fees since at least 2004, when trading practices came under the microscope in the wake of a pervasive trading scandal that sullied the industry's reputation. For its role in the market-timing scandal, Franklin was fined \$50 million by the SEC and forced to overhaul its internal controls. However, Franklin's punishment was far less severe than other fund families' because regulators deemed that the firm took specific steps to curb abusive trading in its funds.

Many fund companies implemented the fees prior to the adoption of regulatory measures, figuring such a response was a foregone conclusion. "There was a knee-jerk reaction," says Jeff Keil, principal of mutual fund consultancy **Keil Fiduciary Strategies**. "Fund companies initially thought redemption fees were going to be mandatory."

Franklin joins a growing list of firms that have eliminated redemption fees. In April, **First Eagle Funds** nixed the 2% redemption fees on two of its funds. **Pimco**, **State Street Global Advisors**, **Oakmark** and **Forward Funds** have also recently eliminated redemption fees on certain products. In 2006, Fidelity junked redemption fees on its Hastings Street series, leaving them in place at roughly one third of its funds.

"We've seen a slight decrease in redemption fees in the last couple of years," says Niels Holch, executive director of the **Coalition of Mutual Fund** investors. Based on his most recent calculations, since Rule 22c-2 first passed last July, the number of U.S. mutual funds that impose redemption fees dropped from 70% to 62%.

Eliminating redemption fees comes on the heels of Rule 22c-2, which requires mutual fund companies to monitor the trading activity in omnibus accounts in order to prevent excessive short-term trading. The rule encourages the use of redemption fees as a deterrent but does not expressly require them. To comply with the rule, fund companies and their third-party recordkeepers and intermediaries endured a protracted and cumbersome process of negotiating agreements to share clients' account information.

While the market-timing scandal has faded into a footnote for most fund companies, regulators are seeing evidence of a ramp-up in time-zone arbitrage and other forms of market timing of late. The **SEC's** Gene Gohlke, associate director of the Office of Compliance Inspection and Examinations, said at a **Practising Law Institute** conference in April that recent stock market volatility has created new opportunities for market timers, and that fund firms need to be vigilant in stamping out the problem even with SEC-enacted safeguards in place.

Some shareholder advocates are calling for additional measures to counter the threat of rogue market timers. "[Rule] 22c-2 is a good first step in providing transparency in omnibus accounts," Holch says. "But it's not a real-time evaluation of order flow."

He argues that the only way to stop abusive market timing is for fund companies to make daily requests for trading data. Otherwise, the timers will slip in and out undetected. He cites Fidelity and **The Hartford** as two fund companies that are conducting daily inquiries but says that he doesn't see widespread acceptance.

Despite more and more firms' putting the kibosh on redemption fees, they're not likely to disappear altogether. In fact, Keil says that many of the smaller fund shops are better off keeping redemption fees than firms like Franklin because they cannot match Franklin's superior resources as one of the largest fund complexes.

(Click [here](#) for *Ignites* poll on Redemption Fees.)

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