

UNITED STATES OF AMERICA
BEFORE THE
SECURITIES AND EXCHANGE COMMISSION

IN THE MATTER OF)
FRANKLIN ADVISERS, INC. AND)
FRANKLIN/TEMPLETON DISTRIBUTORS, INC.,)
RESPONDENTS.)
_____)

PROPOSED PLAN OF DISTRIBUTION OF THE
INDEPENDENT DISTRIBUTION CONSULTANT
WITH RESPECT TO ADMIN. PROC. FILE NO. 3-11769

1. Purpose and Background. This Proposed Plan of Distribution (“Plan”) has been developed pursuant to the Corrected Order of the Securities and Exchange Commission (“Commission”) Instituting Administrative and Cease-and-Desist Proceedings, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order against Franklin Advisers, Inc. (“FA”) and Franklin/Templeton Distributors, Inc. (“FTDI”) (collectively, “Respondents”), dated December 13, 2004 (“Consent Order”).
2. The Consent Order, as amended, requires that no later than 30 days after entry of the Consent Order, FA and FTDI shall pay, jointly and severally, \$1 in disgorgement to the Commission, and that FA and FTDI each shall pay \$10,000,000 in penalties to the Commission, for a total of \$20,000,001 in disgorgement and penalties (“Distributable Amount”).¹ Consent Order, ¶ IV.D. FA and FTDI have timely paid the Distributable Amount to the Commission.²
3. The Consent Order requires that no later than 30 days after the entry of the Consent Order, Respondents shall retain the services of an Independent Distribution Consultant (“IDC”) not unacceptable to the staff of the Commission and acceptable to the Franklin Templeton Mutual Fund (“FT Fund”) Boards. Consent Order, ¶ III.20.B.1. Respondents retained the Hon. Charles B. Renfrew to serve as IDC, and the Commission Staff has not found this retention unacceptable. The FT Fund Boards have found his retention acceptable.

¹ The Distributable Amount shall also include any accrued interest less taxes, fees related to tax administration or reserves for such taxes and fees at the time the Distribution takes place.

² The Distributable Amount is deemed a Qualified Settlement Fund (“QSF”) as referenced in the Order dated March 9, 2005, which appointed Damasco and Associates as Tax Administrator (SEC Release No. 34-51341).

4. The IDC is required to develop a Distribution Plan for the distribution of the Distributable Amount to the FT Funds managed by Franklin Templeton Investments or its affiliates “according to a methodology developed in consultation with Respondents and the Fund Boards and acceptable to the staff of the Commission.” Consent Order, ¶ III.20.B.1. Within 60 days of the date of entry of the Consent Order, the IDC is required to “submit the Distribution Plan for the administration and distribution of disgorgement and penalty funds pursuant to Rule [1101] [17 C.F.R. § 201.1101] of the Commission’s Rules on Fair Fund and Disgorgement Plans. Consent Order, ¶ III.20.B.3. The Plan is being submitted consistent with this obligation.³
5. Consistent with the Order dated March 9, 2005 (SEC Release No. 34-51341), appointing Damasco and Associates as the Tax Administrator of the QSF, the IDC will continue to consult with the Tax Administrator regarding the QSF’s reporting and withholding obligations, if any. The Tax Administrator is solely responsible for ascertaining and meeting any reporting and withholding requirements of the QSF. In its sole discretion, the Tax Administrator may prepare an opinion or seek an Internal Revenue Service ruling to clarify the reporting and withholding obligations of the QSF. The fees for the tax opinion or Internal Revenue Service ruling request will be paid by the Respondents.
6. Marc J. Fagel, Associate District Administrator, Division of Enforcement, United States Securities and Exchange Commission, is proposed to be appointed as “Plan Administrator” pursuant to Rule 1105 of the Commission’s Rules on Fair Fund and Disgorgement Plans. As Plan Administrator, Mr. Fagel will consider and resolve any disputes relating to the distributions made pursuant to the Plan of Distribution.
7. Preliminary Calculation of Initial Distributable Shares and Amounts. “Within 90 days of the entry of the [Consent] Order, based on this Distribution Plan, the Respondents shall require the Independent Distribution Consultant to calculate the amount that should be distributed to the FT Funds.” Consent Order, ¶ III.20.B.4. Consistent with this obligation, and at the request of the IDC, Respondents have agreed to summarize for the IDC the amounts of brokerage commissions paid for the execution of fund portfolio transactions that were allocated to offset broker-dealer demands for marketing support payments (“Marketing Support Commissions”) for each of the FT Funds for each of calendar years 2001, 2002, and 2003 (“Period”).
8. The amounts of Marketing Support Commissions will be totaled for all FT Funds. Each FT Fund will be preliminarily assigned a percentage share (“Initial Distributable Share”) of all Marketing Support Commissions equal to the ratio of the Marketing Support Commissions attributed to that FT Fund for the Period to the total of all Marketing Support Commissions to all FT Funds for the Period. Each FT Fund’s Initial Distributable Share will then be multiplied by the Distributable Amount to arrive at a preliminary Initial Distributable Amount.

³ The procedural deadlines set forth in the Consent Order and reiterated in this Plan have been extended for good cause pursuant to Paragraph III.20.E of the Consent Order.

9. Merged Funds. Respondents have informed the IDC that twenty-two (22) FT Funds in which Marketing Support Commissions were paid for fund sales during the Period (“Merged Funds”) were merged into other FT Funds (“Surviving Funds”), as follows:
- TVP Templeton Stock Fund was merged into Templeton Global Growth Fund (now FTVIP Templeton Growth Securities Fund) on May 1, 2000.
 - TVP Franklin Small Cap Investments Fund was merged into FTVIP Franklin Small Cap Fund on May 1, 2000.
 - TVP Franklin Large Cap Growth Investments Fund was merged into FTVIP Franklin Large Cap Growth Securities Fund on May 1, 2000.
 - Franklin Mid Cap Growth Fund was merged into Franklin California Growth Fund (now Franklin Flex Cap Growth) on July 20, 2000.
 - Franklin Asset Allocation Fund was merged into Franklin Growth and Income Fund (now Franklin Capital Growth Fund) on February 8, 2001.
 - Franklin Templeton Funds – Templeton Balanced Fund was merged into Franklin Templeton Funds – Templeton Growth Fund on May 5, 2001.
 - Franklin US Long Short Fund A was merged into Franklin US Long Short Fund PLC – Class A Sub-Fund on April 2, 2002.
 - FTVIP Franklin Global Health Care Fund was merged into FTVIP Franklin Small Cap Fund on April 30, 2002.
 - FTVIP Franklin Natural Resources Fund was merged into FTVIP Franklin Growth and Income Securities Fund on April 30, 2002.
 - FTVIP Templeton International Smaller Companies Fund was merged into FTVIP Templeton International Securities Fund (now FTVIP Templeton Foreign Securities Fund) on April 30, 2002.
 - FTVIP Franklin Technology Securities Fund was merged into FTVIP Franklin Small Cap Fund on April 30, 2003.
 - TGIT Templeton Latin America was merged into Templeton Foreign Fund on May 8, 2003.
 - FIT Templeton Pacific Growth Fund was merged into Templeton Foreign Fund on May 8, 2003.
 - Franklin Large Cap Growth Fund was merged into Franklin Capital Growth Fund on June 5, 2003.
 - FTGF Franklin US Equity Fund was merged into FT Funds – Franklin US Equity Fund on September 13, 2003.
 - FTGF Mutual Shares II was merged into FT Funds – Franklin Mutual Shares Fund on September 16, 2003.
 - FTIF Franklin Flex Cap Growth Fund was merged into FTIF Franklin US Equity Fund on September 19, 2003.
 - FTIF Templeton Developed Markets Fund was merged into FTIF Templeton Global Fund on September 20, 2003.
 - FT Funds – Franklin US Aggressive Growth Fund was merged into FT Funds – Franklin US Equity Fund on September 22, 2003.
 - FTVIP Franklin Aggressive Growth Securities Fund was merged into FTVIP Franklin Small Cap Fund on April 30, 2004.

- Templeton Capital Accumulator Fund was merged into Templeton Growth Fund on May 20, 2005.
- Franklin Multi-Income Trust was merged with Franklin Income Fund on August 4, 2005.

The preliminary Initial Distributable Share and the Initial Distributable Amount of each Merged Fund will be added to the Initial Distributable Share and the Initial Distributable Amount of each FT Fund that survived each such merger. The preliminary Initial Distributable Share and Initial Distributable Amount of each Merged Fund will then be set to zero.

10. Closed Funds. Respondents have informed the IDC that three (3) FT Funds in which Marketing Support Commissions were paid for fund sales during the Period had been closed (i.e., liquidated) (“the Closed Funds”), as follows:

- Franklin Microcap Value Fund Limited was liquidated July 1, 2003.
- FTWF Franklin Mutual Beacon Fund was liquidated on September 22, 2003.
- Franklin Global Growth Fund was liquidated July 23, 2004.

The preliminary Initial Distributable Amounts for the Closed Funds will be determined (“Closed Fund Amount”). The preliminary Initial Distributable Share and Initial Distributable Amount of the Closed Funds will be set to zero, and the Closed Fund Amount will be allocated as described in paragraph 11 (to all remaining funds). This method will be used for the Closed Funds because the Consent Order provides for the distribution of the Distributable Amount to the FT Funds, and the Closed Funds no longer exist.

11. Preliminary Calculation of Final Distributable Shares and Amounts. The Closed Fund Amount will be multiplied by the Initial Distributable Share of each FT Fund other than the Closed Funds (as adjusted to reflect the mergers discussed above). That product will be added to the Initial Distributable Amount of each FT Fund to arrive at the “Final Distributable Amount” for each FT Fund. For the Closed Funds and the Merged Funds, the preliminary Final Distributable Amount will be zero.

12. Verification. Respondents will take such steps as are reasonable to verify the accuracy of the data and calculations, including the preliminary Initial and Final Distributable Shares and Amounts, and that such calculations and amounts conform in all material respects to this Plan and the Consent Order.

13. Notice to the FT Funds, and Request for Electronic Transfer Instructions. “Following a Commission Order approving a final Distribution Plan, as provided in Rule [1104] [17 C.F.R. § 201.1104] of the Commission’s Rules on Fair Fund and Disgorgement Plans, Respondents shall require that the Independent Distribution Consultant, with Respondents, take all necessary and appropriate steps to administer the final Distribution Plan.” Consent Order, ¶ III.20.B.3. Consistent with this obligation, within 10 days after the Commission enters an Order approving the Plan, Respondents shall (a) provide each

FT Fund (other than the Merged Funds and the Closed Funds) with a copy of the Consent Order and this Plan, (b) notify each such Fund in writing of its Final Distributable Amount and the fact that it is entitled to receive such amount pursuant hereto, and (c) request from each FT Fund written instructions for payment of its Final Distributable Amount, such instructions to be delivered to the IDC, who shall compile them into a form acceptable to the Commission and provide it to the Commission (United States Securities and Exchange Commission, 44 Montgomery Street, Suite 2600, attn. Susan Fleischmann, Esq., San Francisco, California 94104), with a copy to the IDC (Hon. Charles B. Renfrew, 710 Sansome Street, San Francisco, California 94111). Such instructions shall:

- clearly identify each such fund and such fund's Final Distributable Amount; and
- contain clear instructions for payment by electronic transfer to such fund or for such fund's account.

Clear, valid instructions so delivered shall be deemed to be sufficient proofs of claim hereunder; to be timely, such instructions shall be delivered to the Commission no later than 30 days after the date that the Commission enters an Order approving the Final Plan; and Respondents shall so notify the FT Funds.

14. Payment by the Commission of the Distributable Amount. It is anticipated that the Commission will issue an Order authorizing disbursements when it approves the Plan of Distribution in this matter. The Plan Administrator will direct disbursement of payments to the FT Funds promptly after receipt of written instructions compiled by the IDC containing the information specified in Paragraph 13 from the FT Funds. No additional application by the IDC or Plan Administrator, or Order by the Commission, shall be required. The Commission will arrange for payment, by electronic transfer in immediately available funds to each FT Fund its Final Distributable Amount, as directed in the payment instructions. Written confirmation of such payments shall be sent to the IDC by each FT Fund promptly after such payments have been received.
15. Termination of Plan. Any portion of the Distributable Amount paid to the Commission but not distributed because of failure of the FT Funds to timely submit electronic transfer instructions as described in Paragraph 13 shall be paid to the United States Treasury. This Plan shall terminate after the Commission has paid the Distributable Amount to the FT Funds in accordance with Paragraphs 13 and 14 above.
16. Within 10 days of the distribution, the IDC will provide to the Plan Administrator a Final IDC Report which shall include an accounting of all monies earned or received (including interest) and all monies spent (including taxes) in connection with the administration of the Plan of Distribution. This accounting shall not include fees or expenses charged to Respondents by the Tax Administrator or by the IDC. The Tax Administrator shall provide to the IDC such information and assistance as may be necessary in preparing these accountings.
17. Within 30 days of receipt of the Final IDC Report, the Plan Administrator shall submit a Final Accounting to the Commission of all monies earned or received and all monies

spent in connection with the administration of the Plan. The Plan Administrator may rely on the Final IDC Report in preparing the Final Accounting. The Plan Administrator is not required to submit any other accounting in connection with the Plan.