

THE PUTNAM FUNDS
One Post Office Square
Boston, MA 02109

October 10, 2008

Florence E. Harmon, Acting Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: Comments on Proposed Commission Guidance for Mutual Fund Directors with Respect to Oversight of Adviser Trading Practices (S7-22-08)

Dear Madam:

We appreciate the efforts of the Commission and its Staff in developing the proposed guidance for mutual fund directors with respect to their oversight of adviser trading practices. As independent trustees of a family of mutual funds comprising approximately 100 funds with \$96 billion of assets under management as of August 31, 2008, we would like to offer our perspective on these matters in response to the Commission's request for public comment.

The manner in which mutual fund directors carry out their oversight responsibilities with respect to an adviser's trading practices is primarily an exercise of their business judgment and should be viewed in the context of their broader oversight of all services provided by the adviser.

Unlike many other aspects of mutual fund operations, the trading of a fund's portfolio by its adviser is subject only to a limited degree of regulation under the Investment Company Act of 1940. Section 17(e) of the Act and the rules thereunder impose limitations on (i) the ability of an adviser to execute fund portfolio trades through affiliates of the adviser and (ii) prohibit the adviser and its affiliates from receiving any compensation in connection with a fund's portfolio trades (except for brokerage and research services permitted by Section 28(e)). Apart from these specific regulatory limitations, the manner in which the adviser carries out its trading activities and the oversight of these activities by a mutual fund board are governed only by the general fiduciary duties applicable to each of them under federal and state law.

In deciding how best to carry out their oversight activities, mutual fund directors must necessarily exercise their business judgment in the context of their broader responsibilities for overseeing the totality of the services being provided by the adviser. Portfolio trading is only one

facet of the adviser's responsibilities for implementing an investment program for a fund and matters like transactions costs, portfolio turnover, commission rates and the selection of brokers need to be viewed in terms of the effectiveness of the overall investment program being provided by the adviser. Likewise, the board's oversight of trading activities must necessarily be conducted as part of its broader oversight of many other aspects of a fund's operations, including disclosure, pricing, financial reporting, sales, compliance, risk management, etc. Regardless of whether a board meets four times per year or twelve times per year, one day per meeting or two days per meeting, the board is faced with the practical necessity of defining its oversight role with respect to portfolio trading, and with respect to the other matters within its oversight function, in light of the very real practical limits on the time and resources available to even the most conscientious board. Viewed in this fashion, the board's decisions regarding what information is relevant and useful to it, what level of detail is appropriate and what areas are deserving of particular attention represent essential exercises of the board's business judgment.

We emphasize this point because we fear that the Commission's proposed guidance, which focuses in great detail on particular information that might be relevant to the oversight of portfolio trading, may be misunderstood if not viewed in the context a board's broader oversight responsibilities. We believe that the proposed guidance provides many useful examples of information that fund directors might wish to consider, depending on their particular circumstances. However, the proposed guidance too often uses the words "must", "should", etc., thereby adopting a prescriptive rather than a suggestive tone. Past experience has shown that regulatory guidance framed in such terms tends to become viewed as "checklists" by the Commission's examination and enforcement staffs.

We appreciate that the Commission has made some statements in the proposed guidance suggesting that this was not its intent. We urge, however, that the Commission clarify its intention that this guidance, and the specific examples of information cited, should be viewed by fund boards as suggestions of information that directors might find useful in carrying out their oversight responsibilities, not as mandatory "checklists". We also urge the Commission to recognize explicitly that the design of an appropriate oversight process with respect to portfolio trading is ultimately the responsibility of the board, exercising its business judgment in the context of its broader fiduciary responsibilities.

As a general matter, it is appropriate for mutual fund boards to evaluate an adviser's trading activities as an integrated process that includes trading for all of the adviser's fund and non-fund clients and consideration of such matters on a fund-by fund basis should only be necessary in certain limited circumstances.

In many instances, the Commission's proposed guidance speaks in terms of a board review of trading activities with respect to "a" or "the" fund, thereby possibly implying that a fund-by-fund review is required. In a few instances, the proposed guidance specifically focuses on potential conflicts between the interests of different funds and clients. We believe that the proposed guidance does not provide sufficient recognition of the fact that it is common industry practice for advisers to conduct portfolio trading activities on an integrated basis for all of their clients and for mutual fund boards to evaluate the adviser's trading practices largely in those terms.

These industry practices have evolved over time as a means of achieving greater efficiencies and reducing trading costs. The evolution of these practices has also been encouraged by the structure of Section 28(e), which permits an adviser to evaluate the usefulness of brokerage and research services in terms of its overall responsibilities to all of its clients for which it exercises investment discretion. As a result, mutual fund boards typically receive information regarding commission volumes, commission rates, transaction costs, value of brokerage and research services on an integrated basis. This may include, for example, aggregate information for all of the funds under the board's supervision as a group as well as aggregate information for all of the adviser's other clients as a group. Fund-by-fund reporting is typically only provided with respect to the implementation of fund expense recapture arrangements.

While we recognize that a mutual fund board has responsibility to ensure that the interests of each individual fund is protected, we believe that in most instances a board can adequately discharge that responsibility by a finding that participation by all funds in such an integrated trading process best serves the interests of all funds. In particular, we believe that such an arrangement is appropriate when evaluating an adviser's use of fund brokerage to acquire brokerage and research services, notwithstanding differences in the volumes of commissions contributed by different funds to the overall pool of commissions available to the adviser for this purpose and potential differences in the degree to which individual funds might benefit from various types of brokerage and research services being acquired through the use of commissions. We believe that it is sufficient in such circumstances for a board to conclude that participation in an integrated arrangement for the acquisition of brokerage and research services is in the best interests of each fund in light of the potential benefits likely to be provided by such an arrangement over time. Under normal circumstances and absent unusual or material differences in the interests of particular funds, we do not believe that a fund-by-fund analysis of the commission costs incurred by each individual fund and the services and associated benefits received by each individual fund is necessary or practical. We urge the Commission to acknowledge the validity of this approach in any further guidance it may issue.

In developing additional disclosure requirements, the Commission should consider the potential usefulness of additional disclosure in providing an informational base for *mutual fund directors* to evaluate competitive industry practices.

In the past the Commission has typically focused on the usefulness of additional disclosure to fund investors. We believe that there are instances where additional disclosure may not necessarily be particularly useful to individual investors, but where such disclosure would serve to provide information regarding industry practices that would be useful to fund boards in evaluating the practices of their respective fund advisers. At present, only limited information is publicly available regarding trading costs and the use of commissions for acquiring brokerage and research services. The limited disclosures regarding these matters currently required to be made in fund financial reports and registration statements are not particularly useful for purposes of benchmarking and evaluating competitive practices. We urge the Commission to consider whether disclosure of additional information or disclosure of information in different formats would be conducive to the compilation of data by industry consultants that would ultimately

serve to enhance the level of competition in the industry by highlighting best practices regarding portfolio trading.

We are aware that the Commission has requested comments on a variety of specific matters. We would be pleased to discuss with the Commission staff the particular practices our own board had employed in dealing with some of these matters to the extent that would be helpful to the staff.

We appreciate this opportunity to comment on the Commission's proposed guidance.

Very truly yours,

Jameson A. Baxter,
Chairman of the Contract Committee of the Trustees of the Putnam Funds

Paul L. Joskow,
Chair of the Brokerage Committee of the Trustees of the Putnam Funds