



August 7, 2018

Filed Electronically
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: File Number S7-07-18
File Number S7-08-18

Dear Sir or Madam:

Putnam Investments appreciates the opportunity to comment on the Securities and Exchange Commission's (the "Commission") recently proposed Form CRS Relationship Summary and Regulation Best Interest (together, the "Proposal").

Putnam Investments is one of the pioneers of America's mutual fund industry, with \$174 billion under management today on behalf of over 60 institutional clients and 3 million individual customer accounts. Putnam's investment products for retail clients, for both traditional retail and defined contribution markets, are almost wholly distributed through financial intermediaries. We work with firms that employ a variety of business models, from traditional broker-dealers, to independents, to bank channels and registered investment advisers.

We commend the Commission for taking the lead to enhance the protections available to all retail investors – regardless if they are saving for retirement, college, or any other goal – when seeking the professional guidance or advice of a broker-dealer. As the primary regulator of both broker-dealers and registered investment advisers, the Commission is clearly the right regulator to lead this initiative. America's savers rightfully expect that their financial intermediaries will be subject to a robust standard of care – regardless of whether the account involved is a 401(k) account, an IRA, or a retail brokerage account, and regardless of whether the intermediary works on an advisory or commission-based model. Anything less creates confusion for consumers and hinders their ability

to achieve their financial goals, and only the Commission is in a position to adopt rules that will apply with sufficient breadth to avoid confusion.

Against the background of the past few years' fierce debate over the revised fiduciary rule adopted by the Department of Labor ("DOL"), we think it is important to start by noting the positive and constructive aspects of the Proposal. We believe that the Proposal appropriately raises the standard of care for broker-dealers from a suitability standard to a best interest standard. Putnam Investments wholeheartedly supports a standard of care that always puts the client's best interests first.

Another important feature of the Proposal is that, while it properly requires the disclosure and mitigation of conflicts of interest, it does not prohibit any specific conflict outright. This kind of principle based approach is important in order to allow financial firms to remain flexible and dynamic in meeting the myriad needs of American consumers. We suggest that, in finalizing the rule, the Commission further refines its text to avoid undue emphasis on elimination of conflicts per se. As current law under the Investment Advisers Act demonstrates, strong investor protection can be achieved within a framework that emphasizes conflict management and disclosure, rather than conflict elimination.

We also applaud the Commission for explicitly stating that it does not intend to create any new private right of action or right of rescission. It is critical that the Commission be the sole regulator responsible for enforcement of the final rule. This approach will support the predictability and stability of interpretation that is essential for consistent compliance across the industry. On the other hand, turning enforcement over to the plaintiff's bar, as the DOL's fiduciary rule did, would invite confusion and chaos, as each service provider struggled to comply with individual court decisions across numerous jurisdictions, all of which would ultimately drive up costs for consumers.

Additionally, we believe the Proposal appropriately raises the bar on disclosure obligations for broker-dealers, and will assist in consumer understanding of their intermediaries' business models and potential conflicts of interest. Form CRS, with certain refinements suggested by various financial industry groups, could be very helpful for customers in understanding the nature of their financial advice relationships. The Form will succeed, in our view, as long the disclosures are straight-forward, easy to read, and provide the basic information an investor needs to know. Likewise, the Proposal's requirements for layered disclosures above and beyond Form CRS, including information on conflicts and fees, are a laudable step in aligning the core disclosure requirements for broker-dealers and registered investment advisers. In considering appropriate disclosure obligations, we suggest that the Commission have an eye to practical implementation challenges and the related costs. For example, provision of personalized fee information (as opposed to ranges or other descriptions) may not be realistically feasible in all cases, particularly at the outside of a client relationship when a course of action is still being refined, and in fact is likely only to create confusion rather than dispel it.

Finally, we also appreciate that the Proposal does not endorse some types of products at the expense of others – the playing field is essentially level, and thereby consumer choice is protected. In contrast, one of the short-comings of the DOL fiduciary rule, in our view, was that it favored certain products over others, such as "clean shares" over other share class structures, or fee based

compensation over commission based programs. This type of “one size fits all” approach, in our view, is not an effective regulatory framework, and we applaud the Commission for explicitly embracing the preservation of consumer choice and product access as a key tenet in its rulemaking.

Putnam Investments therefore supports the Proposal. The best interests of investors should always come first. Any potential conflicts between the interests of those investors and the intermediaries who advise them or offer them guidance should be fully disclosed and guarded against carefully.

While we believe the Proposal is a meaningful improvement over existing standards, and provides the type of protection consumers need, there are a few points of concern that we would like to call to the Commission’s attention.

The first is in regards to what we perceive as an unnecessary emphasis on cost when determining if a particular recommendation is in the best interest of a customer. The Proposal provides that a broker-dealer, when making a recommendation to a client, must exercise reasonable diligence, care, skill, and prudence when analyzing if a recommendation is in the best interest of that customer, and further states that “cost (including fees, compensation and other financial incentives) associated with a recommendation would generally be an important factor.” We agree. However, the Commission also states that a broker-dealer could not have a reasonable basis to believe that a recommended security is in the best interest of a retail customer if it is more expensive than a reasonably available alternative offered by the broker-dealer, and the characteristics of the securities are otherwise identical.

The prominence of cost in the Proposal’s discussion might generate uncertainty around how a broker-dealer should consider the cost of an investment against other appropriate factors when making a recommendation. It is also unclear what “otherwise identical securities” means, considering how unlikely it is that two securities would be truly identical in every way other than cost. We are concerned that the Proposal, as presently written, would encourage broker-dealers to recommend only the lowest cost mutual funds that are available. But cost, of course, is only one of many factors that may be relevant to a recommendation. Other factors may include a product’s investment objectives, risk, return, product design, liquidity, volatility, as well as such factors as the nature and quality of a product provider’s services, minimum initial investments, the firm’s reputation, convenience, and brand. If the Commission desires to retain a range of choice in the market place for investors, it is important that it refrain from highlighting any one factor as being more important than the others when a broker-dealer is considering the appropriateness of a particular recommendation. An undue emphasis on fees may lead broker-dealers, concerned with potential liability concerns, to avoid recommending products that may be in a particular customer’s best interest, but have higher fees and costs.

Furthermore, focusing heavily on fees risks reducing consumers’ choices by artificially pushing financial advisors in the direction of passive products. A level playing field for different investment products is, in our view, a critical aspect of an effective rule. The investment funds and other products that succeed today are different from those that were most successful just a few years ago. Market change stops for no one, and a laser-like focus on fees is already a prominent feature of the competitive landscape. It is critically important to keep this in mind as the Proposal is revised. The Commission should not implement any final rule or guidance that would reduce

choice or prevent the free flow of ideas and innovations which, in a fiercely competitive marketplace like the U.S. market for financial advice, will ultimately work to consumers' benefit. Ultimately, a variety of product choices and investment options, backed by strong underlying standards of care and disclosure obligations, can only benefit consumers when making important savings and investment decisions. We therefore recommend that the Commission clarify how a broker-dealer should consider cost among various other legitimate factors, without elevating cost over those factors.

Another point to note is related to the interpretation of what constitutes a "recommendation" under the Proposal. Since the application of Regulation Best Interest hinges on what is, and is not, a recommendation, we believe it is important for the Commission to formally define the term in the final rule based on existing guidance from the Financial Industry Regulatory Authority ("FINRA"). A recommendation is commonly understood to be a call to action, or to refrain from action; however, the final rule should be explicit in stating that a recommendation does not include the provision of general financial or investment related communications, such as basic investment concepts, historic differences in returns of asset classes, allocation models, or similar educational information. This clarification will preserve much-needed space for investor education, ultimately benefiting the Commission's policy goals.

The final point we would like to call the Commission's attention to is in regards to the definition of a "retail customer." As an initial matter, we think the use of a single definition, with closer ties to historical concepts under FINRA rules, is the best path. We also strongly suggest that the Commission revise the definition to provide a "legal representative" of a natural person would not include a bank, registered broker-dealer, registered investment adviser, or other regulated financial institution or intermediary that is capable of using its own independent judgment to determine the suitability of a recommendation. Applying the best interest standard to discussions with these sophisticated, regulated parties in our view serves no clear policy purpose.

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In closing, we thank the Commission and its staff for the hard work and careful analysis involved in crafting the Proposal, and look forward to the refinements and amendments that we hope will emerge from the comment process and permit the Commission to settle on an enhanced, consumer-protective, yet practical framework. We note that it is imperative that the Commission continue to coordinate with the DOL so that any possible future DOL rulemaking in this area, to the extent still merited, recognizes the Commission's central role as primary regulator to most financial firms, defers to the Commission's new framework to the extent possible, and avoids a conflicting approach that might limit investor choice or prove impractical to implement. It is likewise important that the Commission work with FINRA to address any potential inconsistencies with FINRA rules in order to ensure a workable regulatory regime. Finally, we strongly urge the Commission to explicitly state in its final rule that Regulation Best Interest preempts any competing state standards; otherwise, financial service providers could be forced to navigate numerous legal requirements, potentially resulting in different products, services, and costs being made available, depending on the state in which the customer resides.

Please note that additional comments and detailed suggestions can be found in the comment letters being submitted by our affiliated firms, Empower Retirement and Great-West Financial, whose comments we endorse.

Sincerely,

A handwritten signature in black ink, reading "Robert V. Reynolds". The signature is written in a cursive style with a prominent initial "R" and a long, sweeping tail.

President and CEO, Putnam Investments