Via electronic mail (rule-comment@sec.gov)

March 31, 2020

Ms. Vanessa Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090

Re: Use of Derivatives by Registered Investment Companies and Business Development Companies; Required Due Diligence by Broker-Dealers and Registered Investment Advisers Regarding Retail Customers' Transactions in Certain Leveraged/Inverse Investment Vehicles, File No. S7-24-15

Dear Ms. Countryman:

Founded in 1937, Putnam Investments is a leading global money management firm with approximately $173 billion in assets under management as of February 29, 2020. Putnam provides investment management services to both individual investors – primarily through their financial advisors – as well as to institutional investors worldwide. Putnam manages over 100 mutual funds and 60 institutional strategies across a range of asset classes and investment styles. A significant number of these investment styles, including fixed income, global equity and global asset allocation (GAA) strategies, contemplate use of derivatives transactions. At February 29, 2020, Putnam had $87 billion in mutual fund assets under management.

Putnam welcomes and appreciates the opportunity to provide the Securities and Exchange Commission (the "SEC") with comments on re-proposed rule 18f-4 (the "Proposal") under the Investment Company Act of 1940, as amended (the "1940 Act"), as well as amended and proposed amendments to Forms N-PORT, Form N-LIQUID (to be re-titled "Form N-RN") and Form N-CEN, under the 1940 Act and to rule 6c-11 under the 1940 Act.[1]

Putnam appreciates the effort the SEC has put into developing the Proposal to set forth updated requirements related to the use of derivatives and other transactions involving leverage by registered investment companies and business development companies (together "Funds").

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1 *See Use of Derivatives by Registered Investment Companies and Business Development Companies; Required Due Diligence by Broker-Dealers and Registered Investment Advisers Regarding Retail Customers' Transactions in Certain Leveraged/Inverse Investment Vehicles*, 85 Fed. Reg. 4446 (Jan. 24, 2020), *available at* https://www.govinfo.gov/content/pkg/FR-2020-01-24/pdf/2020-00040.pdf (the "Proposing Release").

We have been participating in the effort of the Investment Company Institute (the "ICI") and the Asset Management Group of the Securities Industry and Financial Markets Association ("SIFMA AMG") to develop comments on the Proposal, and generally concur with the positions that the ICI and SIFMA have been developing on the Proposal. We also support the Proposal and believe that it represents a substantial step towards accomplishing the SEC's stated goals of providing an updated and more comprehensive approach to the regulation of Funds' use of derivatives, while addressing investor protection and concerns under section 18 of the 1940 Act. However, we believe that if the Proposal is revised to take into account the recommendations and observations set forth below, it would still address the SECs stated goals while providing additional flexibility and legal certainty to investment managers of Funds regarding the use of derivatives and avoiding constraints on effective portfolio management of Funds that could indirectly harm Fund investors.

Increase in VaR Risk Limits

We support the SEC's proposal to allow Funds subject to the value at risk (VaR) limits in the Proposal to use one of two alternative VaR-based tests, a relative VaR test ("Relative VaR Test") and an absolute VaR test ("Absolute VaR Test") to establish leverage limits in connection with derivatives transactions, and the use of VaR tests to limit leverage generally. Under the Proposal's Relative VaR Test, a Fund's relative VaR could not exceed 150% of the VaR of the Fund's designated reference index. Under the Absolute VaR Test, the VaR of a Fund's portfolio could not exceed 15% of the value of the Fund's net assets.

We believe that the proposed limits under the Relative VaR Test and the Absolute VaR Tests should be raised to 200% and 20%, respectively. This modification would conform the VaR limits to the limits that apply under the European requirements for managers of Undertakings for the Collective Investment in Transferable Securities ("UCITS"). Putnam is a sponsor of UCITS funds, certain of which employ investment strategies that are comparable to the investment strategies of Putnam-sponsored mutual funds. Although we fully appreciate the fact that the SEC, in pursuing its stated goals in the Proposal, should not be beholden to the limitations applicable to other existing regulatory regimes, conforming the VaR limits to the UCITS limitations would result in risk parameters on the use of derivatives that are consistent across product types. This approach would also facilitate Putnam's continued ability to construct risk-reward profiles for a particular investment strategy that are consistent for our clients on a global basis and not distorted by the jurisdiction of the investment vehicle. Finally, we believe that the use of consistent VaR limits for UCITS and Funds would result in operational efficiencies and reduced operational risk given that the compliance and risk structure is already in place to monitor UCITS VaR limits.

The Release notes that the SEC selected the 150% limit for the Relative VaR Test based on an analogy between the Relative VaR Test and the Section 18 limits on bank borrowing and a conclusion that 150% VaR limit would effectively limit a Fund's leverage related to derivatives in a way that is similar to the way that Section 18 limits bank borrowing. In addition, the Release notes that the SEC's Division of Economic and Risk Analysis ("DERA") staff developed the 15% limit for the Absolute VaR Test considering the fact that (1) DERA staff's calculated the S&P 500's mean VaR since inception, as approximately 10.4% and (2) the VaR that a Fund using the S&P 500 as its designated reference index would be permitted to have assuming that the S&P 500's VaR is approximately equal to its historical mean. The SEC also stated Funds often select broad-based large capitalization equities indexes such as the S&P 500 for performance comparison purposes, including funds that are not broad-based large capitalization equity funds. The Release also notes that the VaR limits would have a minimal impact on existing Funds.

We believe that the justification of the proposed thresholds and the analogy to Section 18 for each test are not appropriate. A Fund may invest in securities that are components of its designated reference index that have relatively higher VaR than the majority of other securities in that index or may invest in securities that are not components of its designated reference index. Such a Fund borrowing in compliance with Section 18 and investing borrowed cash in such securities would have more than 150% of the VaR of its designated reference index. In addition, although we acknowledge that the S&P 500 frequently serves as a performance benchmark, many Funds that will not be able to identify a designated reference index pursue investment strategies (e.g. small cap and global equity) with performance benchmark absolute historic VaR levels that are significantly higher than the S&P 500's absolute VaR. To the extent that a Fund determines that there is not an appropriate designated reference index and is required to use the Absolute VaR Test, a 15% limit may not be workable for a Fund with an investment strategy that has higher absolute VaR levels than that of the S&P 500.

SEC Acknowledgment that the Absolute VaR Test Will Frequently be the Appropriate VaR Limit

The Proposal effectively establishes the Relative VaR Test as the default VaR test in providing that the Relative VaR Test will apply unless a Fund's derivatives risk manager is unable to identify an appropriate designated reference index (reflecting the markets or asset classes in which the Fund invests) that is appropriate for the Fund taking into account the Fund's investments, investment objectives, and strategy, in which case the Absolute VaR Test would apply[2]

In the Proposal, the SEC asked for examples of funds that would likely use the Absolute VaR Test because a derivatives risk manager would be unable to identify an appropriate designated reference index and also asked whether the SEC should identify certain types of fund strategies that may not typically have appropriate designated reference indexes or for which absolute VaR would otherwise be appropriate. In the Proposal, the SEC acknowledged that some multi-strategy funds manage their portfolios based on target volatilities but implement a variety of investment strategies, making it difficult to identify a single index (even a blended index) that would be appropriate.

There are numerous examples of Funds with investments, investment objectives and strategies where the Fund's performance benchmark would not be an appropriate designated

[2] We believe it would be more straightforward if the determination of whether a Fund is unable to determine an appropriate designated reference index is solely based on a Fund's investment objective and strategy in order to avoid the uncertainties associated with the multi-factor reference in the Proposal to investments, investment objectives, strategy and the "markets or asset classes in which the Fund invests."

reference index and an alternative designated reference index is not available. . For example, Funds with absolute return strategies may have cash performance benchmarks such as the ICE BofA US Treasury Bill Index. These indexes may be appropriate in view of the Fund's absolute return investment strategy but are generally not reflective of markets or asset classes in which the Fund invests, whether directly or through derivatives transactions. Fixed income funds with multi-sector investment strategies may employ an index such as the ICE BofA 1-3 Year US Corporate Index as a performance benchmark. However, the VaRs of these performance benchmarks have been historically very low, and the VaR of a Fund's portfolio of securities may be higher than the benchmark's VaR depending on the fixed income sectors and issuers in which the Fund invests. As a result, the use of these performance benchmarks as designated reference indexes under the Relative VaR Test may not be appropriate given that it could curtail the Funds' ability to fully implement an investment strategy that entails the use of derivatives transactions. Derivatives positions are often more liquid and easily adjusted than cash investments that provide equivalent exposure and involve lower transactions costs. If a Fund were to use its performance benchmark as a designated reference index, it could force a Fund to make use of less liquid cash investments with higher transaction costs relative to a derivative transaction, which would have a negative impact on the Fund and its shareholders. Finally, Funds with investment strategies focused on mortgage-backed securities may use a performance benchmark such as the Bloomberg Barclays U.S. MBS Index. The Bloomberg Barclays U.S. MBS Index is an unmanaged index consisting of a large number of agency mortgage backed pass-through securities guaranteed by GinnieMae, Fannie Mae, and Freddie Mac. Given the nature and large number of agency securities in this index, its VaR is very low. Again, use of this performance benchmark as a designated reference index for purposes of the Relative VaR Test would be unworkable.

The Proposal does permit a Fund's derivatives risk manager to determine that it is unable to identify an appropriate designated reference index and instead use an Absolute VaR Test. The Proposal requires the derivatives risk manager to provide a written report to the Fund's board as to why the derivatives risk manager made this determination.

In order to avoid potential second-guessing of a determination to use the Absolute VaR Test for a Fund, we would support express acknowledgment by the SEC in the Proposal and related SEC guidance that: (i) a performance benchmark may not be an appropriate designated reference index for the Relative VaR Test based on differences in constituents and risk profiles (with the SEC providing additional examples of Fund investment strategies where this is likely the case) and (ii) the selection of the Absolute VaR Test made in the derivatives risk manager's reasonable judgment would not subject a Fund to heightened enforcement or examination risk, either with respect to the determination that there is no appropriate designated reference index or that the Fund's performance benchmark is not an "appropriate broad-based securities market index" for disclosure purposes under Form N-1A.[3]

[3] See Form N-1A Instruction 5 to Item 27(b)(7), which defines an "appropriate broad-based securities market index" as one that is administered by an organization that is not an affiliated person of the Fund, its investment adviser, or principal underwriter, unless the index is widely recognized and used.

Classification of To-Be-Announced Transactions (TBAs) in Agency Mortgage-Backed Securities as a "Similar Instrument" to a Derivative

We recommend that the SEC expressly classify to-be-announced transactions (TBAs) in U.S. government agency mortgage-backed securities (MBS) as a "similar instrument" for purposes of the definition of a "derivatives transaction" in the Proposal. Additionally, we recommend that the SEC acknowledge that TBAs are not "similar financing transactions" to a reverse repurchase agreement for purposes of the Rule and would not be viewed by the SEC as a "derivative" for purposes of other SEC and relevant self-regulatory organization rules as a result of TBA's treatment under the Proposal.

The TBA market provides critical facilitation of the forward trading of MBS issued by Fannie Mae, Freddie Mac and Ginnie Mae. In a TBA trade, the parties agree on six parameters of the securities to be delivered (issuer, maturity, coupon, price, par amount and settlement date), but the actual identity of the securities to be delivered at settlement is not specified. All TBA trades of MBS with a specific maturity and issuer settle on the same date each month. TBA trades generally settle within three months of the trade date and, to facilitate logistics for settlement, the market sets a single settlement date for each month for each of several types of trades. Consistent with industry practice, the seller notifies the buyer of the details of the pool to be delivered two business days before the settlement date.

The SEC did not specifically reference TBAs in the Release although it states that "firm commitment agreements" would be a "similar instrument" and that firm commitment agreements have the same economic characteristics as a forward contract. Although TBAs have economic characteristics that are similar to a firm commitment agreement or forward, the term "firm commitment agreement" is not widely recognized in the industry. Consequently, it would provide clarity to Funds that invest in TBAs if the SEC expressly recognizes that TBAs are "similar instruments" for purposes of the Rule.

We also believe it would be helpful if the SEC acknowledges that the classification of TBAs for purposes of the Rule would not bear on whether TBAs should be treated as derivatives under other rules, including with respect to the treatment of TBAs under FINRA Rule 4210. On October 25, the Financial Industry Regulatory Authority (FINRA) filed a rule change (SR-FINRA-2019-026) with the Securities and Exchange Commission that postponed until March 25, 2021 the implementation of mandatory margin requirements for "covered agency transactions", which would include TBAs. It would be useful if the SEC would clarify that the treatment of TBAs under the Proposal is not relevant to classification and treatment of TBAs under other rules, including FINRA Rule 4210.

Finally, we request that the SEC acknowledge that TBAs are not "similar financing transactions" to a reverse repurchase agreement. Although a TBA could be viewed as creating leverage under an expansive interpretation of the concept of "economic leverage" in that a Fund is able to achieve market exposure to the TBA mortgage pool but not required to use cash to settle the TBA trade until a future date, TBAs do not have the effect of allowing a Fund to *obtain* additional cash to be used for investment purposes, which the Release indicates is the feature that warrants similar treatment to reverse repurchase agreements and bank borrowings.

Money Market Funds Should be Excluded from the Proposal but Permitted to Invest in Instruments Consistent with Rule 2a-7

We support the proposed exclusion of money market funds from the Proposal as contemplated by the Release. However, we also believe that a money market fund should be permitted to engage in the transactions permitted under Rule 2a-7 under the 1940 Act even if the transactions could be characterized as "derivatives transactions" under the Proposal as long as they are fixed and known obligations at the time of purchase such as when issued U.S. Treasuries. However, in seeking this modification we are not suggesting that money market funds should be permitted to invest in the enumerated derivatives included in the definition of derivatives transactions (i.e. swaps and futures).

In the Release, the SEC posited that it did not believe that money market funds typically engage in derivatives transactions or the other transactions permitted under the Proposal and that these transactions would generally be inconsistent with a money market fund maintaining a stable share price or limiting principal volatility.[4] However, in the Release the SEC invited comment as to whether money market funds should be permitted to engage in some of the transactions permitted by the Proposal.

Subject to Rule 2a-7, money market funds may invest in securities on a "when issued" or "delayed delivery" basis, including in U.S. Treasury securities. When a security is purchased on a when-issued or delayed-delivery basis, delivery and payment take place in the future after the date of the commitment to purchase the securities at a predetermined price and/or yield. For certain securities purchased on a when-issued or delayed delivery basis, settlement of such transactions normally occurs after the purchase commitment is made. Although unclear from the Proposal, it is possible that these when-issued or delayed delivery securities could be characterized as "similar instruments" (and thus "derivatives transactions") .[5]

These instruments are not used for speculative or leveraging purposes. Rather, these instruments are used to obtain attractive investment opportunities and secure favorable terms. In fact, in 1991, the SEC amended Rule 2a-7 to extend the maximum allowable maturity for an investment from twelve months to thirteen months, *precisely to accommodate securities purchased by money market funds on a when-issued or delayed delivery basis*.[6]

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[4] The SEC recognized, however, that it was unable to estimate the extent to which money market funds invest in these transactions because it does not collect this information on Form N-MFP. *See* Proposing Release at footnote 584.

[5] The Proposing Release suggests that "when-issued" securities are "derivatives transactions," without regard to their actual trading characteristics or their potential to create leverage. *See* Proposing Release at 4455 ("Do money market funds currently engage in any transactions that might qualify as derivatives transactions under the rule or any of the other transactions permitted by the rule? For example, do money market funds engage in reverse repurchase agreements, "to be announced" dollar rolls, or "when issued" transactions?").

[6] *See* Revisions to Rules Regulating Money Market Funds, SEC Release No. IC-18005 (Feb. 27, 1991) at 8120. The SEC stated that:

> With respect to securities other than Government securities, as suggested by several commenters, the rule extends the maximum permitted maturity of individual securities to thirteen months. *This change has been made in order to accommodate funds purchasing annual tender bonds, and securities on a when issued or delayed delivery basis. These securities often are not delivered for a period of up to one month after the purchaser has made a*

Given that all material terms, including the price and/or yield and settlement date, are known at the time of purchase, a money market fund is able to value the security for purposes of determining its shadow NAV under Rule 2a-7. It is possible that these when-issued or delayed delivery securities could be characterized as "similar instruments" under the Proposal. Moreover, because these securities create fixed and known payment obligations for money market funds, they do not present some of the speculative risks associated with "traditional" derivatives instruments. Accordingly, these investments are not inconsistent with a money market fund's objective of maintaining a stable NAV or limiting principal volatility. While these instruments do not implicate the undue speculation concern underlying Section 18, such instruments could be viewed as implicating the asset sufficiency concern underlying Section 18 as they create forward payment obligations.

However, Rule 2a-7 already provides a comprehensive framework designed to limit the interest rate, diversification, credit and liquidity risks of money market fund portfolios. For example, Rule 2a-7 generally requires taxable money market funds to hold at least 10% of their total assets in "daily liquid assets" and all money market funds to hold at least 30% of their total assets in "weekly liquid assets."[7] Money market funds are also required to routinely stress test their ability to maintain sufficient liquidity (at least 10% of their total assets in weekly liquid assets) and minimize principal volatility (or maintain a stable price per share, as applicable). These risk-limiting conditions of Rule 2a-7 have been highly effective in addressing the asset sufficiency concerns underlying Section 18 for money market funds.

Accordingly, money market funds should be able to continue investing in these instruments and should be able to do so without complying with any additional requirements under the Proposal. In addition, if a money market fund was forced to monitor whether an instrument permitted by Rule 2a-7 could also be viewed by the SEC as a "similar instrument" under the definition of a derivatives transaction in the Proposal, it would add an additional, and in our view, unnecessary layer of compliance monitoring.

Extension of Remediation Period for VaR Test Non-Compliance to 5 Business Days; Elimination of "Time Out" Period

The Proposal provides for a remediation period of up to three business days for a Fund that is not in compliance with the applicable VaR test to come back into compliance. Under the Proposal, if a Fund does not return to compliance with the applicable VaR test within three business days, then: (1) the derivatives risk manager must report to the fund's board of directors and explain how and by when the derivatives risk manager reasonably expects that the Fund will come back into compliance and (2) the derivatives risk manager must analyze

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> *commitment to purchase them*. Since the purchaser must "book" the security on the day it agrees to purchase it, the maturity period begins on that day. The revised rule allows funds to invest in securities with a remaining maturity of no more than thirteen months (397 days). (emphasis added) (internal citations omitted)

[7] *See* Rule 2a-7(d)(4)(ii) and (iii). Money market funds are also subject to: (1) a restriction on investments in illiquid securities (generally no more than 5% of total assets) and (2) a general liquidity requirement to hold securities that are sufficiently liquid to meet reasonably foreseeable shareholder redemptions in light of their obligations under Section 22(e) and any commitments made to shareholders. *See* Rule 2a-7(d)(4).

the circumstances that caused the Fund to be out of compliance for more than three business days and update any program elements as appropriate to address those circumstances. The Proposal also requires a Fund to report to the SEC on proposed Form N-RN within one business day following the third business day that the Fund has exceeded the applicable VaR limit and again when the Fund returns to compliance with the applicable VaR test. Finally, the Proposal includes a "time out" period in that a Fund is not permitted to enter into derivatives transactions (other than derivatives transactions that, individually or in the aggregate, are designed to reduce the fund's VaR) until the fund has been back in compliance with the applicable VaR test for three consecutive business days and satisfied the board reporting requirement and program analysis and update requirements.

We believe that the remediation period should be extended from three to five business days for purposes of the remediation, board and SEC reporting requirements in the Proposal. A five business-day remediation period would provide a Fund with additional time to implement remediation actions and would provide added flexibility to implement appropriate remediation actions without having to engage in forced asset sales or unwinding of derivatives transactions in ways that could be detrimental to Fund shareholders. A longer remediation period would also address shorter-term market dislocations that may have resulted in a temporary increase in a Fund's VaR. Moreover, it would be detrimental if a Fund faced with large redemptions during a period of market dislocation was also forced to unwind derivatives transactions that could exacerbate the potential harm to the Fund and its shareholders.

In addition we believe that a Fund should be permitted to continue to engage in derivatives transactions while it is not in compliance with the VaR test as long as the derivatives risk manager determines that the derivative transaction is reasonably designed to mitigate a risk or risks within the Fund's portfolio (even if the derivative transaction may result in an increase in the Fund's VaR).

Absent this added flexibility, we believe that a fund could be precluded from engaging in risk-reducing actions during the period that it exceeds its VaR limit or during the time-out period. For example, many Funds pursuing a global investment strategy will hedge foreign currency exposure back to the exposure of the Fund's performance benchmark in order to reduce the tracking error that would otherwise result from investments denominated in the foreign currency.[8] However, under the Proposal, this derivatives transaction would not be

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[8] We believe that the currency hedging exception in the Proposal will be of limited utility for a Fund with a global investment strategy that hedges its currency exposure back to the Fund's performance benchmark. The Proposal would permit a Fund to rely on the limited derivatives user exception if it limits its use of derivatives transactions to currency derivatives for hedging purposes as specified in the Rule. Under this exception, a Fund could only use currency derivatives to hedge currency risk associated with specific foreign-currency-denominated equity or fixed-income investments in the fund's portfolio. However, under the currency hedging exception, the notional amount of the currency derivatives the fund holds may not exceed the value of the instruments denominated in the foreign currency by more than a negligible amount.
Although the currency hedging exception may be viable for a U.S equity or fixed income fund that includes no index components in the Fund's performance benchmark that are denominated in a foreign currency, it would be unworkable for a global fund with a performance benchmark that includes foreign-currency denominated components and that typically hedges its exposure back to the benchmark.

permitted during a period that the Fund exceeded its VaR Limit if it was contemplated to increase a Fund's VaR. Yet, the currency hedge may in fact reduce the Fund's tracking error and overall risk profile, despite the resulting increase in the VaR limit.

As an example, consider a global equity Fund (for which the currency hedging exemption is not available) that currently exceeds its VaR limit that uses the MSCI World Index (ND) as a performance benchmark and has 3% of its net assets in United Kingdom investments denominated in UK pound sterling. The MSCI World Index currently has a 5.31% weighting in UK constituents denominated in sterling. The Fund's portfolio manager believes that it would be prudent from a risk standpoint to reduce the increased tracking error that would otherwise result from an underweight to sterling relative to the Fund's benchmark but is above its VaR limit. Yet the Fund's portfolio manager would be precluded from entering into a currency forward to purchase sterling in order to increase its sterling currency exposure to the 5.3% sterling exposure in the MSCI World Index if it was known that it would increase the Fund's VaR.

We believe that a requirement for a formal determination by the Fund's derivatives risk manager that a derivatives transaction is designed to mitigate a risk or risks within the Fund's portfolio, along with the Proposal's board and SEC reporting requirements, sufficiently addresses any investor protection concerns.

Finally, for the same reasons as discussed above with respect to derivatives transactions during a continue VaR test breach, we are strongly opposed to the proposed "time out" period that would apply after a Fund has returned to compliance with the applicable VaR limit. We are not aware of other 1940 Act rules that include this type of "time out" restriction once violations have been cured.

Aggregate Derivatives Exposure and VaR Limit Data Should Not be Subject to Public Disclosure

We have no objection to SEC reporting on Form N-PORT of a Fund's derivatives exposure and VaR levels and other VaR-related data. However, we believe that public reporting of this information (other than the identify of a Fund's designated reference index for Funds subject to the Relative VaR Test) could result in significant investor confusion that outweighs any benefit from market insight into a Fund's derivatives exposure.

The Proposal would provide for public disclosure of a Fund's derivative exposure on Form N-PORT as of the end of the reporting period. This information would be publicly available for the third month of each fund's quarter 60 days after quarter end. Funds would also be required to report their highest daily VaR and median daily VaR during the reporting period. Funds subject to the Relative VaR Test during the reporting period would be required to report the name of the fund's designated reference index, and index identifier and the Fund's highest and median daily VaR ratio (i.e. the value of the fund's portfolio VaR divided by the VaR of the designated reference index) during the reporting period. Funds would also be required to report the number of exceptions the Fund identified during the reporting period through backtesting. This VaR information for the third month of a fund's quarter would also be publicly available.

Aggregate derivatives exposure on a notional basis could give investors a misleading perspective on a Fund's actual risk profile, particularly if the derivatives are being used to hedge exposure of a Fund's portfolio to duration, sector or other risks. In such cases, while the use of derivatives is risk-reducing, there is a likelihood that the notional derivatives exposure could be incorrectly interpreted, whether by Fund investors or third-party analysts, as indicating that a Fund has a risky investment profile. More fundamentally, the notional value of derivatives with very different volatility profiles (i.e. commodity swaps vs. 2-year US Treasury futures) cannot be directly compared or summed in a way that is meaningful.

Similarly, we are concerned that VaR values that may have been calculated by asset managers using varied methodologies and assumptions would likely result in misleading comparisons, if publicly available**.** In addition, VaR by its very nature is a technical investment calculation that would not typically be readily understood by the retail Fund investor. We believe that existing public disclosure of a Fund's derivatives positions in Fund financial statements, the role of derivatives in a Fund's disclosures regarding its investment strategy and risks in the prospectus and, where applicable, discussion of derivatives transactions in a Fund's management discussion of fund performance in shareholder reports provide investors with appropriate insight into a Fund's derivatives activity.

Accordingly, the final rule should provide that derivatives exposure and VaR information discussed above is reported on Form N-PORT so that it remains non-public.

Expansion of Permitted Investments for Securities Lending Cash Collateral; Carve-Out of Securities Lending Programs from "Similar Financing Transactions"

We support the SEC's position in the Release that securities lending arrangements should not be treated as "similar financing transactions" to a reverse repurchase agreement, subject to certain restrictions on permitted investments for the cash collateral received from the loaned securities. However, we believe that the types of permitted investments for the cash collateral should be expanded and clarified.

Putnam-sponsored Funds that engage in securities lending (as well as other fund complexes) have obtained exemptive orders from the SEC to permit investment of cash collateral for loaned securities in an affiliated central comingled vehicle (the "Central Fund") other than a money market fund, subject to the enumerated conditions in the orders. [9] The Central Fund relies on the exemption from investment company status under Section 3(c)(7) of the 1940 Act. The Central Fund pursues an objective of current income consistent with preservation of capital and maintenance of liquidity by investing mainly in fixed income securities comprised of short duration, investment grade, money market and other fixed income securities including, but not limited to, obligations of the U.S. government, and its agencies and instrumentalities, domestic corporate debt obligations, repurchase agreements, securitized debt instruments and money market instruments. While the Central Fund is not subject to the requirements of Rule 2a-7 under the 1940 Act, the pool is managed in a conservative manner and typically meets the daily and weekly liquid asset requirements under Rule 2a-7 of the 1940 Act. Under normal circumstances the Central Fund's 's effective duration will not exceed one year, and its dollar-weighted average maturity is three years or

[9] *See,* in the case of the Putnam Funds, Putnam American Government Income Fund et al., October 1, 2003

less. Given that the SEC has previously determined to grant exemptive relief permitting the use of Central Funds to invest cash collateral from securities lending, Putnam believes that it would be appropriate for the SEC to acknowledge the use of Central Funds for investment of cash collateral from securities lending in the adopting release for the Proposal and indicate that use of such Central Funds does not implicate "similar financing transaction" status despite the fact that Central Funds do not represent "cash and cash equivalents".

In the Release, the SEC stated that a Fund would need to limit its investments of cash collateral to "cash and cash equivalents". The Release did not provide any guidance as to the scope of the term "cash and cash equivalents." In the 2015 original proposing release for the derivatives rule[10], the SEC noted that "[c]urrent U.S. generally accepted accounting principles define cash equivalents as short-term, highly liquid investments that are readily convertible to known amounts of cash and that are so near their maturity that they present insignificant risk of changes in value because of changes in interest rates." In the 2015 Proposing Release, the SEC cited examples of items commonly considered to be cash equivalents including certain Treasury bills, agency securities, bank deposits, commercial paper, and shares of money market funds.

We believe it would be beneficial if the SEC provided guidance regarding the meaning of the term "cash and cash equivalents." We also believe that the scope of permitted investments for cash collateral from securities lending transactions should be expanded to include securities issued by U.S. government-sponsored entities and repurchase agreements secured by U.S. Treasury securities to the extent that the SEC does not view these investments as falling within the definition of "cash and cash equivalents." Each of these proposed categories of permitted investments are "highly liquid investments" as defined in Rule 22e-4 . Therefore, similar to cash and cash equivalents, allowing these categories of permitted investments for securities lending cash collateral should not raise senior security concerns relating to securities lending and should effectively limit a Fund's ability to use securities lending arrangements as a source of leverage. We believe that the manner in which a fund engages in short-term cash management-type investing is an investment decision subject to the business judgment of the fund's investment adviser and board, and that it is not necessary to eliminate all potential investment risk to avoid a fund's securities lending activities being viewed as having a leveraging effect. Finally, we would request that the SEC clarify that a Fund that invests cash collateral in permitted investments would not be viewed as leveraging its portfolio. In the Release, the SEC appears to condition the exclusion from "similar financing transaction" on two requirements: the Fund "does not sell or otherwise use non-cash collateral received for loaned securities to leverage the fund's portfolio, and the fund invests cash collateral solely in cash or cash equivalents."

Amendment of Form N-PORT to Remove Liquidity Risk Management Rule Reporting Regarding Segregated Assets

Given that the Proposal would eliminate legacy asset segregation requirements, we believe that Form N-PORT should be amended to eliminate Item B.8, which requires an open-end fund to provide the percentage of a Fund's "highly liquid investments" that it has segregated

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[10] *See* Use of Derivatives by Registered Investment Companies and Business Development Companies, Investment Company Act Release No. 31933 (Dec. 11, 2015) [80 FR 80883 (Dec. 28, 2015)], at n.6 and accompanying text ("2015 Proposing Release").

to cover or pledged to satisfy margin in connection derivatives transactions that are classified as moderately liquid, less liquid and illiquid.

We believe that our comments and the proposed modifications of the Proposal are consistent with the SEC's goals of providing an updated and more comprehensive approach to the regulation of Funds' use of derivatives, while addressing the investor protection concerns under section 18 of the 1940 Act.

Sincerely,

Robert L. Reynolds
President and Chief Executive Officer