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Putnam INVESTMENTS

February 13, 2012

By electronic submission

Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 20551
Attn: Jennifer J. Johnson, Secretary

Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-1090
Attn: Elizabeth M. Murphy, Secretary

Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 20429
Attn: Comments Robert E. Feldman, Executive Secretary

Office of the Comptroller of the Currency
250 E Street, S.W., Mail Stop 2-3
Washington, DC 20219

Re: Restrictions on Proprietary Trading and Certain Interests in, and Relationships with, Hedge Funds and Private Equity Funds - Docket No. OCC-2011-14; R–1432 and RIN 7100-AD82; RIN 3064–AD85; File Number S7–41–11 and RIN 3235-AL07

Ladies and Gentlemen:

Founded in 1937, Putnam Investments is a leading global money management firm with approximately $121 billion in assets under management as of January 31, 2012. Putnam provides investment management services to both individual investors – primarily through their financial advisors – as well as to institutional investors worldwide.

Putnam welcomes and appreciates the opportunity to provide the agencies addressed above (hereafter referred to collectively as the "Agencies") with comments on the proposed rules (hereafter the "Proposal" or, as it is more commonly known, the "Volcker Rule."[1]) promulgated by the Agencies to implement Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (hereafter referred to as the "Act")

Putnam appreciates the efforts the Agencies have put into the Proposal to identify areas that require greater clarity and also to enable banking entities to continue to provide market-making and other vital client-oriented services without undue market disruption. We have been working with industry and trade groups, including the Investment Company Institute (the "ICI") and the Securities Industry and Financial Markets Association ("SIFMA"), and generally concur with commentary and testimony that the ICI and SIFMA have provided to the Agencies and to Congress.

[1] See Prohibitions and Restrictions on Proprietary Trading and Certain Interests In, and Relationships With, Hedge Funds and Private Equity Funds, 76 Fed. Reg. 68846 (November 7, 2011).

We share ICI and SIFMA's concerns that implementation of the Proposal as currently drafted could have seriously negative – and unintended – consequences. These may range from reducing liquidity in U.S. capital markets and harming their global competitiveness to raising the cost of capital to U.S. corporations, lowering return to investors and curbing the American economy's capacity for growth. We further worry that contrary to Congress' clear intent, the Proposal, as drafted, could negatively impact many registered funds even though the Act's plain language makes it clear that Congress did not intend them to be subject to the Volcker Rule.

Numerous comments from industry participants have cited a wide variety of concerns with the Proposal. These include the sheer complexity and contradictions in the Proposal's language; the possibility of discouraging foreign participation in U.S. securities markets; the Proposal's seeming acceleration of the two-year phase-in of implementation that the Act itself intended; and various international impacts as well. While we share many of these concerns, Putnam's comments here focus on two specific issues: the dangers the Proposal poses to market-making, particularly but not only in fixed-income and municipal bond markets; and the potential damage the Proposal could inflict on the mutual fund industry.

Market Making: Vital to Capital Market Liquidity

A key concern to the U.S. and global financial community – and one that Putnam shares – is that the Proposal fails to adequately and clearly define and implement the market making activities that Congress and the Act clearly intended to protect. The potential damage that implementation of the Proposal could do to market making and the costs that it could impose on the entire economy have been fully described in testimony provided by our colleagues at SIFMA before Congress on January 18, 2012 which we concur with.

These costs could be quite substantial, not incidental. For example, a study done in December 2011 by SIFMA and Oliver Wyman estimated that implementation of the Proposal as drafted could cost investors in certain assets classes near-immediate mark-to-market losses of at least $90 billion on existing holdings; potentially raise annual corporate borrowing costs in excess of $10 billion and impose approximately $1 billion in incremental annual transaction costs on individual investors due to reduced liquidity.

The Proposal presumes that all market making transactions at the outset are prohibited, proprietary trading contrary to the intent of the Act. We urge the Agencies to remove this rebuttable presumption from the structure of the rule and more clearly distinguish permissible market-making activities from prohibited proprietary trading. As drafted, the factors the Agencies intend to apply to define this key distinction fail to establish clear guidance and rely heavily on subjective consideration of facts and circumstances. The resultant uncertainty will jeopardize broad and robust participation of banking entities in providing market liquidity, raise costs by widening bid/ask spreads, and generally disrupt the provision of market-making services by banking entities. These outcomes are all contrary to the intent of the Proposal and to the plain language and spirit of the Act.

We believe the Agencies certainly do not intend to implement the Act in a way that could inflict such costs on our capital markets. The Agencies do recognize that continued *bona fide* market making services are critical to the efficient functioning of America's capital markets. We therefore urge the Agencies to re-cast the Proposal to ensure these activities can continue. Our concerns about market-making and liquidity reflect the dependence of the mutual fund industry on market-making activities. We share the concern expressed by the ICI that a reduction in liquidity could have damaging impact on registered funds, ranging from wider spreads to market disruption and higher costs to investors.

Other Potentially Negative Impacts on Registered Funds

The fact that the Proposal as drafted could have negative impacts on registered funds is painfully ironic -- since registered funds are among the country's most regulated and least risky investment vehicles. The Act's own language shows no intent by Congress to restrict any banking entity's involvement with registered funds or impede the normal operations of registered funds themselves. Yet the Proposal as drafted could have broadly negative impact on some of the most conservative categories of mutual funds, including money market and municipal funds.

We, therefore, support the ICI's call for the Proposal to be modified to avoid damaging registered funds and their long-standing and long-permitted relationships with banking entities. Specifically, the Proposal should (i) clarify that a registered fund is not a "covered fund," (ii) explicitly expand the language permitting trading in certain government obligations to include the full range of state and local government obligations, including agency fixed-income offerings, and (iii) revise the Foreign Trading Exemption to avoid adverse effects on U.S. registered funds by restoring the long-standing and time-tested reliance on Regulation S.

Conclusion

To secure continued provision of market making and liquidity to our securities markets, we urge the Agencies to modify the Proposal to eliminate the broad presumption of prohibited activity from the market making rules and more clearly distinguish permissible market making related activities for customers from prohibited proprietary trading.

We also ask that the Proposal be modified so as to expressly clarify that registered funds are not "covered funds". Finally, we appeal to the Agencies to revise the Proposal to ensure that an appropriate time frame is permitted for banking entities to implement the Act.

We believe these modifications would ensure the continuation of services vital to securities markets that are heavily relied upon by U.S. corporations, individual savers and institutional investors, and preserve these markets' ability to sustain the American economy's capacity for growth.

Sincerely,

Robert L. Reynolds
President and Chief Executive Officer