

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

INVESTMENT ADVISERS ACT OF 1940
Release No. 2578 / January 9, 2007

Administrative Proceeding
File No. 3-12527

In the Matter of

LAWRENCE J. LASSER,

Respondent.

**ORDER INSTITUTING
ADMINISTRATIVE AND CEASE-
AND-DESIST PROCEEDINGS,
MAKING FINDINGS, AND
IMPOSING REMEDIAL SANCTIONS
AND A CEASE-AND-DESIST ORDER
PURSUANT TO SECTIONS 203(f)
AND 203(k) OF THE INVESTMENT
ADVISERS ACT OF 1940**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 203(f) and 203(k) of the Investment Advisers Act of 1940 (“Advisers Act”) against Lawrence J. Lasser (“Respondent” or “Lasser”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over him and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order Pursuant to Sections 203(f) and 203(k) of the Investment Advisers Act of 1940 (“Order”), as set forth below.

III.

On the basis of this Order and Lasser's Offer, the Commission finds¹ that:

Respondent

1. Lawrence J. Lasser, age 63, is a resident of Brookline, Massachusetts. Lasser began working for Putnam Management Company, which later changed its name to Putnam LLC, in 1969, and served in various senior positions until his employment officially ended on December 31, 2003. Lasser served as the President of Putnam Investment Management, LLC from 1982 until approximately November 1, 2003 and was the Chief Executive Officer of Putnam LLC from 1985 until approximately November 1, 2003. Lasser also served as a trustee of the Putnam Funds from approximately 1992 through 2003. In his position as CEO, the operating heads of the Putnam LLC subsidiaries, including Putnam Investment Management, LLC, the Putnam Funds' investment adviser, and Putnam Retail Management Limited Partnership, the Putnam Funds' distributor, reported to him. Lasser is currently retired.

Other Related Entities

2. Putnam Investment Management, LLC ("Putnam") is the registered investment adviser to the over 100 registered investment companies in the Putnam Fund Complex, which include retail mutual funds, registered closed-end funds and open-end mutual funds that underlie variable annuities ("Putnam Funds"). Since 1971, Putnam has been registered with the Commission pursuant to Section 203(c) of the Advisers Act. Putnam is owned by Putnam Investment Management Trust, a wholly-owned subsidiary of Putnam LLC, a Delaware limited liability company that conducts business as Putnam Investments. The operating head of Putnam reported to Lasser from at least January 1, 2000 to November 1, 2003. Putnam's principal offices are located in Boston, Massachusetts.

3. Putnam Retail Management Limited Partnership ("PRM") is the distributor of the Putnam Funds and a subsidiary of Putnam LLC. Since 2000, PRM has been registered with the Commission as a broker-dealer pursuant to Section 15(b) of the Securities Exchange Act of 1934. The operating head of PRM reported to Lasser from at least January 1, 2000 to November 1, 2003. PRM's principal offices are located in Boston, Massachusetts.

4. Putnam LLC ("Putnam Investments") is a Delaware limited liability company that conducts business as Putnam Investments. Putnam Investments is owned by Putnam Investments Trust, a Massachusetts business trust. Putnam Investments Trust is a subsidiary of Marsh & McLennan Companies, Inc., which is a publicly-owned

¹ The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

holding company traded on the New York Stock Exchange, whose operating subsidiaries are international insurance brokers, investment managers and management consultants. Putnam Investments is the parent of PRM, and Putnam Investment Management Trust, which is the parent of Putnam. The financial statements of the subsidiaries, including PRM and Putnam, were included in consolidated financial statements of Putnam Investment Trust, Putnam Investments' parent. Putnam, PRM and Putnam Investments shared administrative, financial and legal services and functioned as a single corporation. These divisions are collectively referred to as "the Putnam organization." Putnam Investments' principal offices are located in Boston, Massachusetts.

Overview

5. From at least January 1, 2000 through November 1, 2003 (the "relevant time period"), Lasser was the CEO of Putnam Investments and the President of Putnam, and a member of the Putnam Funds' Board of Trustees (the "Putnam Board" or "Trustees"). During the relevant time period, Lasser was responsible for ensuring that Putnam fulfilled its fiduciary duty to disclose adequately to the Putnam Board the use of fund brokerage commissions and potential conflicts of interest created by the use of fund brokerage commissions.

6. During the relevant time period, Putnam, the Putnam Funds' investment adviser, directed brokerage commissions on the Putnam Funds' portfolio transactions to broker-dealers for "shelf space" or heightened visibility within their distribution systems.² PRM, the Putnam Funds' distributor and an affiliate of Putnam, had entered into arrangements ("Preferred Marketing Arrangements") with over 80 broker-dealers whereby the broker-dealers provided services designed to promote the sale of the Putnam Funds. Approximately 20 of those broker-dealers were paid in cash, while over 60 broker-dealers received directed brokerage commissions from the Putnam Funds' portfolio transactions. All of these arrangements were based primarily upon negotiated formulas relating to gross or net fund sales and/or the retention of fund assets.

7. When Putnam directed fund brokerage commissions to broker-dealers in connection with the Preferred Marketing Arrangements, its affiliate, PRM, did not use its own assets to pay for the services obtained under these arrangements. As a result, because the financial statements of these entities were included in consolidated financial statements of Putnam Investments Trust, the parent of Putnam Investments, the entire Putnam organization benefited from the use of Putnam Funds' assets to defray such expenses. However, Putnam did not adequately disclose this potential conflict of interest to the Putnam Board. Putnam also did not adequately disclose to the Trustees the potential conflict of interest presented for its Equity Trading group, which was faced with directing trades to specific broker-dealers designated by PRM in connection with Preferred Marketing Arrangements while at the same time satisfying its best execution obligations. Nor did Putnam adequately disclose to the Trustees the specific terms and

² On March 23, 2005, the Commission instituted settled public administrative and cease-and-desist proceedings against Putnam Investment Management, LLC. See In the Matter of Putnam Investment Management, LLC, Investment Advisers Act Rel. No. 2370 (March 23, 2005).

details of the Preferred Marketing Arrangements that were being paid for with brokerage commissions, including the fact that PRM, its affiliate, had arrangements with broker-dealers to direct fund brokerage commissions for marketing and distribution services pursuant to negotiated formulas with the broker-dealers.

8. Lasser knew that Putnam used fund brokerage commissions to satisfy the Preferred Marketing Arrangements and he was aware of potential conflicts of interest created by this use. Lasser, however, did not, himself, adequately disclose to the Trustees the use of brokerage commissions or potential conflicts of interest created by this use. Lasser also did not ensure that anyone else at Putnam adequately disclosed this information to the Trustees.

PRM Had Preferred Marketing Arrangements with Broker-Dealers

9. Since at least January 2000 through December 2003, PRM had over 80 relationships with certain broker-dealers pursuant to which the Putnam Funds received heightened visibility within the broker-dealers' distribution or sales systems. The Putnam Funds' distributor, PRM, negotiated the Preferred Marketing Arrangements on behalf of itself and Putnam, the Putnam Funds' investment adviser. At all times, PRM entered into these arrangements with the knowledge and approval of Putnam and Putnam Investments.

10. The broker-dealers provided various types of distribution services in connection with these arrangements: participation in meetings with registered representatives, primarily for the purpose of providing education and training regarding the Putnam Funds; the opportunity for the Putnam Funds to be mentioned in communications with a broker-dealer's customers such as on a broker-dealer's website; and often, placement on a "preferred list" at a broker-dealer.

11. Various financial terms existed for participation in the broker-dealers' Preferred Marketing programs based upon the formulas that PRM had individually negotiated. Typically, broker-dealers were paid anywhere from 10 to 35 basis points ("bps") on mutual fund gross or net sales and/or 1.5 to 15 bps on aged assets. These payments were in addition to existing payments, including dealer concessions, shareholder servicing payments, and payments for services that Putnam or an affiliate otherwise would provide.

Putnam Directed Brokerage Commissions to Pay for Preferred Marketing Arrangements

12. Although many broker-dealers sought Preferred Marketing payments in the form of cash or "hard dollars," PRM generally negotiated to direct brokerage commissions on the Putnam Funds' portfolio transactions. Putnam and PRM referred to these directed fund brokerage commissions as "soft dollars," "fund sales," or "commissions for sales." In the ordinary course, to conduct portfolio transactions in connection with the Putnam Funds' investment program, the Funds pay substantial amounts in brokerage commissions for execution services. In addition to the execution

services, Putnam and its affiliates at times also received soft dollar and other benefits from such commissions, including research and the payment of fund custody expenses. During the relevant period, Putnam directed some commissions to broker-dealers to pay for Preferred Marketing Arrangements.

13. Although PRM or Putnam Investments in some instances used its own cash, Putnam, PRM, and Putnam Investments preferred to direct fund brokerage commissions to pay for these arrangements. Putnam's use of brokerage commissions directly benefited Putnam Investments and PRM by reducing their out-of-pocket expenses. It was also in Putnam's financial interest to defray the expenses of an affiliate because of the positive impact on the Putnam organization's operating income. This preference was reflected in an internal presentation PRM created on revenue sharing that stated that PRM was "always pushing toward a soft dollar deal" when negotiating these arrangements. The impact of this preference was that PRM had substantially more Preferred Marketing Arrangements in soft dollars than in hard dollars.

14. From at least January 1, 2000 through December 31, 2003, Putnam directed fund brokerage commissions to over 60 broker-dealers for the Preferred Marketing Arrangements.³ When PRM negotiated to direct brokerage commissions to pay for these arrangements, it sometimes negotiated to direct brokerage commissions of 1.5 times (or some other negotiated multiple or conversion rate) the amounts requested by the broker-dealers in hard dollars.

15. In order for Putnam to properly direct fund brokerage commissions for the arrangements, PRM communicated the commission amounts, but not the details of the basis point arrangements, for each of the broker-dealers to the Head of Putnam's Equity Trading ("Equity Trading"). These amounts, referred to as commission targets ("targets"), were primarily based upon the formulas negotiated with the broker-dealers. Equity Trading used the targets, subject to its own guidelines, including the requirement for the traders to seek best execution, to direct fund brokerage commissions to the broker-dealers.

16. Periodically, PRM communicated modified commission target amounts for individual brokers to Equity Trading based upon the priorities PRM set for these broker-dealers. These modifications for individual brokers were sometimes increases and sometimes decreases to the targets. At times, PRM requested that Equity Trading increase trading with specific broker-dealers in order to more quickly meet target commission amounts with broker-dealers and provided suggested priority status among the various broker-dealers. Equity Trading accepted the modifications, subject to Putnam's best execution policies.

17. The management of Equity Trading periodically circulated to the traders a list prepared by PRM reflecting the directed brokerage target amounts for each broker-

³ Based upon the Putnam Board's direction, Putnam ceased directing brokerage to broker-dealers in connection with the sale of fund shares as of January 1, 2004.

dealer, commission amounts paid to each broker-dealer during that year, the current balance of the target remaining, and the percentage of completion toward the target. Thus, Putnam's traders were made aware of the targets and placed trades with the fund-selling broker-dealers subject to the firm's best execution policies. In addition to the fund sales targets, the traders were also made aware of other brokerage commission targets, including those for research.

18. Putnam had a computerized system that categorized trades based upon the percentage of completion of the target. Six such categories existed, including research, proprietary research, fund sales, custody, execution and client-directed. For example, if Putnam placed a trade with a broker-dealer that had both fund sales and research targets, the computer would automatically assign the brokerage commission to the category for which the target was farthest away from completion. If a trade or a certain portion of a trade was assigned to fund sales, the associated commission was used to pay for a Preferred Marketing arrangement. In addition to assigning the trades on Putnam's internal records, Putnam's trading system also electronically communicated this information to the trading desks at the broker-dealers that executed the trades.

19. Putnam used two methods to direct brokerage commissions for Preferred Marketing Arrangements: by forwarding portfolio transactions directly to a broker-dealer with which it had such an arrangement ("distributing broker"); and through "step-out" or correspondent arrangements. Putnam used the latter method in its effort to achieve best execution in circumstances in which the distributing broker's execution capability did not satisfy Putnam's trading department's standards.

Putnam Used Brokerage Commissions to Satisfy Preferred Marketing Arrangements

20. Putnam had a policy relating to placing portfolio transactions with broker-dealers who sold Putnam Funds in recognition of their sales of Putnam Funds' shares. Its policy was that, consistent with NASD Rule 2830(k), Putnam may consider sales of shares of Putnam Funds as a factor in the selection of broker-dealers to execute portfolio transactions for the Putnam Funds ("2830(k) transactions").

21. Within Putnam, guidance was given that agreements for the allocation of brokerage commissions could not be made. Also, PRM's internal policy was that amounts directed to broker-dealers in consideration of fund sales were not obligations and therefore, directed brokerage arrangements should not be put into writing.

22. Lasser knew that Putnam used brokerage commissions to satisfy the Preferred Marketing Arrangements. Lasser understood that there was a difference between 2830(k) transactions and Putnam's practice of directing commissions to pay for Preferred Marketing Arrangements with broker-dealers. Lasser also knew that PRM and Putnam preferred to pay for the Preferred Marketing Arrangements with commissions, rather than having PRM pay for them in cash, because using commissions allowed PRM to avoid using its own assets to pay for these arrangements.

**Putnam's Directed Brokerage Practices
Were Not Adequately Disclosed to the Trustees**

23. During the relevant time period, the Trustees received periodic reports listing all brokerage firms and the commissions they received pursuant to 2830(k) transactions. In addition, when Putnam made presentations to the Putnam Board, Putnam conveyed to the Trustees that Putnam's stated internal policies were that agreements for the allocation of commissions could not be made and repeatedly assured the Putnam Board that there were no agreements for commissions used for 2830(k) transactions, that only targets were set and no firm amounts of commissions were promised to broker-dealers. Putnam did not adequately disclose to the Putnam Board that it was directing fund brokerage commissions to over 60 broker-dealers to pay for PRM's Preferred Marketing Arrangements. While Putnam communicated generally to the Trustees that broker-dealers were seeking financial support, Putnam did not adequately disclose to the Trustees the existence of the arrangements with the broker-dealers, the terms or details of the arrangements, or the preference to direct brokerage commissions, which were fund assets, rather than using PRM's or Putnam Investments' assets.

24. During the relevant time period, when Putnam provided the Board with information relevant to the annual review and approval of the management contract for the Putnam Funds, Putnam also provided a memorandum to the Board describing "fall-out benefits" received by both Putnam and its affiliates. Among other things, the memorandum identified that Putnam conducted trading for the Putnam Funds, and in connection with that trading, Putnam received research related services from broker-dealers in consideration of those commissions. While the memorandum reiterated the policy that Putnam may engage in 2830(k) transactions, it did not discuss the Preferred Marketing Arrangements nor did it identify the distribution services received with the Funds' brokerage commissions.

25. During the relevant time period, Lasser was responsible for ensuring that the Trustees were adequately informed on the use of brokerage commissions. Lasser, as the head of the Putnam organization and as a Trustee, attended the monthly Putnam Board meetings and made presentations to the Trustees. During these meetings, Lasser reported on the state of the business and could discuss any issue he believed to be important. Lasser also made yearly presentations during the Executive Session of the Contract Committee in which he would address issues raised by the Contract Committee. Lasser knew Putnam used brokerage commissions to satisfy the Preferred Marketing Arrangements and that he and PRM preferred to use brokerage commissions to pay for these arrangements. However, Lasser did not adequately disclose this information to the Trustees and he did not ensure that anyone else disclosed this information to the Trustees.

Potential Conflicts of Interest Were Not Adequately Disclosed to the Trustees

26. As a fiduciary, Putnam had a duty to disclose adequately to the Putnam Board potential conflicts of interest created by the use of fund brokerage commissions,

yet it failed to do so. Lasser, as the head of the Putnam organization and as a Trustee of the Putnam Funds, was responsible for ensuring that Putnam fulfilled this duty.

27. The use of brokerage commissions to pay for participation in Preferred Marketing Arrangements created two potential conflicts of interest for Putnam. The first related to the use of fund assets to satisfy what would otherwise have been obligations of PRM. Because PRM and Putnam were under common control, Putnam benefited from the use of fund assets to defray the expenses of its affiliate, PRM.

28. The second potential conflict was the one that Putnam's Equity Trading group faced while trying both to satisfy its best execution obligations and to direct trades to specific broker-dealers identified by PRM. Specifically, Equity Trading had to determine: which broker-dealers to place trades with and what commission rates to pay; whether to use single stock trades or program trading; whether to reduce the number of broker-dealers with which Putnam traded; and whether these relationships affected the transaction costs of the directed trades and Equity Trading's objectives to reduce overall transaction costs.

29. Due to his role as the head of the Putnam organization, Lasser knew of potential conflicts of interest created by the use of fund brokerage commissions. However, despite his numerous presentations to the Putnam Board, Lasser did not adequately disclose to the Trustees potential conflicts of interest that arose from Putnam's use of brokerage commissions and failed to ensure that anyone else adequately disclosed this information.

30. In August 2003, Lasser received a copy of a memorandum prepared by Putnam's Investment Division, which included Equity Trading. The memorandum recommended, among other things, eliminating the use of brokerage commissions for 2830(k) transactions, which would have the effect of eliminating the use of brokerage commissions for the Preferred Marketing Arrangements. Lasser knew as early as April 2003 that the Trustees were also considering eliminating 2830(k) transactions. Lasser knew in June 2003 that the Putnam Board's Contract Committee would be making a recommendation to the full Board on this issue at the September 2003 Board meeting. Lasser did not provide this memorandum to the Trustees.

31. Lasser also heard from certain managers in Putnam's Investment Division that they believed Putnam should eliminate 2830(k) transactions. Approximately one week before the September 2003 Putnam Board meeting, Lasser asked certain managers in Putnam's Investment Division to allow him to represent Putnam on the issue of 2830(k) transactions until the Trustees had made their decision. He also asked that if the managers were participating in any meetings with the Trustees, they should defer any questions and views regarding 2830(k) transactions to him.

32. At or about this time, Lasser was attempting to persuade certain Trustees to not eliminate 2830(k) transactions. In September 2003, Lasser addressed the Contract Committee on this issue. In his presentation, Lasser did not adequately disclose to the

Trustees all aspects of the use of brokerage commissions and the attendant conflicts of interests. Lasser attempted to persuade the Contract Committee not to recommend to the full Board that Putnam eliminate 2830(k) transactions.

33. As a result of the conduct described above, Lasser willfully aided and abetted and was a cause of Putnam's violation of Section 206(2) of the Advisers Act, which provides that it is "unlawful for an investment adviser, by the use of the mails or any means or instrumentality of interstate commerce, directly or indirectly . . . to engage in any transaction, practice, or course of business which operates as a fraud or deceit upon any client or prospective client."

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent Lasser's Offer.

Accordingly, pursuant to Sections 203(f) and 203(k) of the Advisers Act, it is hereby ORDERED that:

A. Respondent Lasser shall cease and desist from committing or causing any violations and any future violations of Section 206(2) of the Advisers Act;

B. Respondent Lasser shall, within 30 days of the entry of this Order, pay a civil money penalty in the amount of \$75,000 to the United States Treasury. Such payment shall be: (A) made by United States postal money order, certified check, bank cashier's check or bank money order; (B) made payable to the Securities and Exchange Commission; (C) hand-delivered or mailed to the Office of Financial Management, Securities and Exchange Commission, Operations Center, 6432 General Green Way, Stop 0-3, Alexandria, VA 22312; and (D) submitted under cover letter that identifies Lawrence J. Lasser as a Respondent in these proceedings, the file number of these proceedings, a copy of which cover letter and money order or check shall be sent to Daniel M. Hawke, District Administrator, Philadelphia District Office, U.S. Securities and Exchange Commission, Mellon Independence Center, 701 Market Street, Suite 2000, Philadelphia, PA 19106.

By the Commission.

Nancy M. Morris
Secretary