UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

INVESTMENT ADVISERS ACT OF 1940
Release No. 5050 / September 27, 2018

INVESTMENT COMPANY ACT OF 1940
Release No. 33257 / September 27, 2018

ADMINISTRATIVE PROCEEDING
File No. 3-18844

In the Matter of **PUTNAM INVESTMENT MANAGEMENT, LLC** **and** **ZACHARY HARRISON** **Respondents.**	**ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS PURSUANT TO SECTIONS 203(e), 203(f), AND 203(k) OF THE INVESTMENT ADVISERS ACT OF 1940, AND SECTIONS 9(b) AND 9(f) OF THE INVESTMENT COMPANY ACT OF 1940, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS AND A CEASE-AND-DESIST ORDER**

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(e) and 203(k) of the Investment Advisers Act of 1940 ("Advisers Act") and Sections 9(b) and 9(f) of the Investment Company Act of 1940 ("Investment Company Act") against Putnam Investment Management, LLC ("Putnam"), and pursuant to 203(f) and 203(k) of the Advisers Act and Sections 9(b) and 9(f) of the Investment Company Act against Zachary Harrison ("Harrison") (together "Respondents").

II.

In anticipation of the institution of these proceedings, Respondents have submitted Offers of Settlement (the "Offers"), 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 them and the subject matter of these proceedings, which are admitted, Respondents consent to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant To Sections 203(e), 203(f), and 203(k) of the Investment Advisers Act of 1940, and Sections 9(b) and 9(f) of the Investment Company Act of 1940, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order ("Order"), as set forth below.

III.

On the basis of this Order and Respondents' Offers, the Commission finds that:

Summary

1. From at least April 2011 through September 2015, Putnam was an investment adviser to numerous registered investment companies ("RICs") and other clients. Zachary Harrison was a portfolio manager in Putnam's Structured Credit Group ("SCG"). During the relevant period, certain Putnam advisory accounts for various reasons needed to sell positions in non-agency residential mortgage-backed securities ("RMBS") that Harrison viewed as desirable investments and wished to transfer to other Putnam-advised accounts. Rather than attempting to sell the securities into the market, Harrison prearranged with broker-dealers to temporarily sell the securities and repurchase them at a small mark-up, usually the next business day. Harrison's conduct caused Putnam to prearrange dealer-interposed cross trades in which trading counterparties purchased fixed income securities from certain Putnam advisory accounts and then resold the securities to other Putnam advisory accounts. Most of the cross trades were between RIC accounts, or between RICs and RIC-affiliated accounts.

2. The manner in which Harrison effected the trades on behalf of Putnam resulted in undisclosed favorable treatment of certain advisory clients over others. Specifically, Harrison executed the sell side of each cross trade at the highest or only bid he received for the securities. Harrison then executed the repurchases at a small markup over the sale price. By cross trading RMBS at the bid, rather than at an average between the highest current independent bid and the lowest current independent offer, Harrison caused Putnam to favor the buyers in the transactions over the sellers, even though both were advisory clients to which Putnam and Harrison owed the same fiduciary duty.

3. Putnam did not adopt and implement policies and procedures reasonably designed to prevent unlawful cross trading, failed reasonably to supervise Harrison, and filed Forms ADV with the Commission that contained untrue statements of material fact and omitted to state material facts required to be stated therein.

Respondents

4. Putnam Investment Management, LLC, a Delaware limited liability corporation with its principal offices located in Boston, Massachusetts, has been registered with the Commission as an investment adviser since 1971. Putnam is the registered investment adviser to over 100 RICs, including retail mutual funds. As of June 2018, Putnam had approximately 114 clients and more than $91 billion in assets under management. Putnam is an indirect subsidiary of Great-West Lifeco. Inc. ("Great-West"), a financial services holding company. Great-West is a member of Power Financial Corporation ("Power Financial"), which is a subsidiary of Power Corporation of Canada ("Power"), a financial, industrial, and communications holding company. Great-West, Power Financial, and Power are all publicly traded on the Toronto Stock Exchange.

5. Zachary Harrison, age 35, a resident of Boston, Massachusetts, was a portfolio manager and RMBS trader on Putnam's structured credit trading desk in Putnam's fixed income

department from March 2009 until May 2016. Harrison joined Putnam as a fixed income quantitative research analyst in 2004. Harrison is currently self-employed.

Background

6. As a portfolio manager in Putnam's Structured Credit Group, Harrison was responsible for making investment decisions and buying and selling non-agency RMBS on behalf of Putnam's advisory clients, including RICs. The market for these securities was generally illiquid.

7. At times, Putnam was required to sell RMBS out of particular client accounts due to market conditions, client investment objectives, portfolio guidelines, liquidations, redemptions, or for other reasons. In some cases, Harrison believed that the securities that Putnam was required to sell were good investments at current market prices, and Harrison wanted to move them into other Putnam client accounts that he believed would benefit from holding the securities.

Cross Trading Regulations and Putnam's Policies

8. Sections 17(a)(1) and 17(a)(2) of the Investment Company Act generally prohibit any affiliated person of a RIC or any affiliated person of the affiliated person, acting as principal, from knowingly selling a security to or purchasing a security from the RIC unless the person first obtains an exemptive order from the Commission under Section 17(b). Such transactions are called "cross trades." Rule 17a-7 under the Investment Company Act exempts from these prohibitions certain cross trades where the affiliation between a RIC and its trading counterparty arises solely because the two have a common investment adviser, directors, or officers, provided that the cross trades are effected in accordance with Rule 17a-7. Rule 17a-7 requires, among other things, that cross trades be executed at the "independent current market price," which is defined in relevant part as "the average of the highest current independent bid and lowest current independent offer, determined on the basis of reasonable inquiry." If the adviser pays a brokerage commission, fee, or other remuneration in connection with the cross trade, the cross trade is not eligible for an exemption under Rule 17a-7, and is therefore impermissible.

9. The Commission has stated that interpositioning a dealer in cross trades does not remove the cross trades from the prohibitions of Section 17(a), and has emphasized that, "to the extent these transactions are effected at the 'bid' or 'asked' price rather than at an average of the two prices, they would not be in compliance with the rule's pricing requirements." *See* Section 48(a) of the Investment Company Act, 15 U.S.C. § 80a-47(a); *Exemption of Certain Purchase or Sale Transactions Between a Registered Investment Company and Certain Affiliated Persons Thereof*, Investment Company Act Release No. 11136, 1980 WL 29973, at *2 n.10 (Apr. 21, 1980).

10. In order to effectuate cross trades of fixed income securities such as RMBS between RICs in a manner consistent with Putnam's internal policies and procedures, Putnam traders were required to obtain two bids and two offers and, within an hour of receiving them, to cross at the midpoint of the highest bid and the lowest offer, without paying any brokerage commissions or other compensation. Putnam's policies required that all trades effected pursuant

to Investment Company Act Rule 17a-7 be identified and reported to the relevant fund board on a quarterly basis. If a Putnam account sold a fixed income security to a broker-dealer, Putnam traders could not purchase that security from the same broker-dealer on behalf of another Putnam account unless "the trade has not been pre-arranged and the broker has assumed risk of ownership of the security," which was generally defined as "the broker holding the security overnight." Putnam traders were required to execute trades in a manner consistent with clients' best interests, to "employ a trading process that seeks to maximize the value of a client's portfolio within the client's stated investment objectives and constraints," and to primarily consider "best prices and consistent liquidity" when executing trades.

11. Throughout the relevant period, Putnam's Form ADV, which was filed with the Commission, stated that Putnam engaged in cross trades "[w]here legally permitted," and that, when Putnam did so, cross trades were typically conducted "in accordance with the provisions of Rule 17a-7" under the Investment Company Act, "at an independent current market price," and typically without "a commission or sales charge."

Harrison Caused Putnam to Engage in Prohibited Securities Transactions

12. When Harrison was required to sell RMBS from particular client accounts that he thought were good investments for other clients, he did not effect cross trades in accordance with Investment Company Act Rule 17a-7, Putnam's applicable policies and procedures, and Putnam's Form ADV. Instead, on dozens of occasions between April 2011 and September 2015, Harrison sold at least 93 RMBS to third-party broker-dealers, typically at the highest or only bid he received, and when selling he arranged to repurchase the RMBS from the same broker-dealers the next business day at the same price plus a small mark-up.

13. On at least 34 of these occasions, when communicating with broker-dealers about positions that he hoped to sell and repurchase, Harrison referred to the securities as a "core position" or "core holding." Similar terms were sometimes used by other fixed income traders at Putnam to refer to bonds that they liked that were held in multiple accounts. However, in separate in-person or telephonic communications with the broker-dealer representatives, Harrison explained that his use of these or similar words indicated his intention to repurchase securities the next business day at the bid price, plus a small mark-up. On at least six other occasions, Harrison used other language to convey to broker-dealers at the time of the sale that he intended to repurchase securities that he was selling. The broker-dealer counterparties understood that Harrison expected them to reoffer the securities back to Harrison at a slight mark-up. Approximately 75% of Harrison's prearranged cross trades were intermediated by two particular broker-dealers and occurred at a mark-up of four ticks the next business day.

14. Harrison's cross trades were not bona fide, arm's length transactions, and they did not involve actual transfer of risk to Putnam's broker-dealer counterparties. By interposing broker-dealers to effect prearranged cross trades, Harrison avoided applicable regulatory requirements and Putnam's policies and procedures and caused Putnam's client to repurchase securities at prices only slightly above the bid prices at which they were sold. These prices were more favorable to Putnam's repurchasing clients than prices that incorporated market-based bid-offer spreads, which Putnam's broker-dealer counterparties would have demanded if the sales

and repurchases were bona fide, arm's length transactions, and if risk had actually passed from Putnam's clients to the broker-dealers.

15. By avoiding exposure to the market, Harrison allocated the full benefit of these savings to Putnam's buying clients. As a result, Putnam deprived its selling clients of their share of the market savings.

Putnam Did Not Detect and Prevent Harrison's Prohibited Securities Transactions

16. Putnam did not adopt and implement policies and procedures that were reasonably designed to prevent violations of the federal securities laws and Commission rules governing cross trading. SCG personnel were generally familiar with the prohibition on prearranged trading, but did not receive training on the connection between prearranged trading and the rules governing interfund transfers, including Section 17(a) of the Investment Company Act or the Rule 17a-7 exemption.

17. Putnam's monitoring efforts were insufficient to detect impermissible cross-trades. In 2010, the Compliance Department began generating a report of overnight repurchase transactions, known internally as the "overnight cross report." While Putnam's Compliance Department was generating and reviewing this report, it was also responsible for reporting all cross trades executed pursuant to Investment Company Act Rule 17a-7 to the Putnam funds' boards of directors on a quarterly basis. Accordingly, the Compliance Department was aware that Rule 17a-7 trades involving structured credit securities rarely occurred. Yet from 2010 until mid-2014, the Compliance Department only examined overnight repurchases where the sale and the repurchase occurred at exactly the same price, and incorrectly assumed that the existence of a spread between the sell and repurchase prices meant that risk had passed to a counterparty and that the trade therefore was not prearranged.

18. In early 2014, an SEC enforcement action against Western Asset Management Co. highlighted the risk of impermissible cross-trading. *Western Asset Mgmt. Co.*, Advisers Act Release No. 3762 (Jan. 27, 2014) (settled action). This action raised concern in the Compliance Department of the possibility of impermissible cross trades. Putnam's Compliance Department determined to schedule a training session addressing such conduct; however, no such training occurred during the relevant period.

19. In July 2014, the Compliance Department instituted a process of emailing traders who appeared on the overnight cross report each day to request information sufficient to establish that their trades were not prearranged. Traders' descriptions of their trades and assertions that the trades were not prearranged were deemed sufficient to complete the inquiry. The Compliance Department did not request or review communications between the traders and their broker-dealer counterparties or other information, nor did the Compliance Department analyze any patterns or trends in the data that appeared in the overnight cross report.

20. When the SCG traders began receiving emails from the Compliance Department inquiring about overnight repurchase transactions, they consulted with one another about how to respond. Many of the responses from the SCG traders contained nearly identical assertions that

their trades were not prearranged. Compliance personnel noticed the similarity of the responses, but it did not raise concerns for them or lead them to seek more information.

Violations

21. As a result of the conduct described above, Putnam and Harrison caused certain Putnam advisory account clients to violate Sections 17(a)(1) and 17(a)(2) of the Investment Company Act, which make it unlawful for any affiliated person or promoter of or principal underwriter for a RIC or any affiliated person of such a person, promoter, or principal underwriter, acting as principal (1) knowingly to sell any security or other property to such RIC or to any company controlled by such RIC, or (2) knowingly to purchase from such RIC, or from any company controlled by such RIC, any security or other property, unless the transaction complies with the exemptive requirements of Rule 17a-7 under the Investment Company Act, or the adviser obtains an exemptive order under Section 17(b) of the Investment Company Act.[1] Putnam did not seek an exemptive order for cross transactions effected by Harrison, and the transactions were not exempt from the prohibition by virtue of Rule 17a-7, because the trades were not executed at a price equal to the average of the highest current independent bid to purchase that security and the lowest current independent offer to sell that security, and were made through one or more broker-dealers who received remuneration in connection with the transactions.

22. As a result of the conduct described above, Putnam violated Section 206(2) of the Advisers Act, which prohibits any investment adviser from engaging in any transaction, practice, or course of business which operates as a fraud or deceit upon any client or prospective client. Specifically, in its dealer interposed cross transactions, Putnam favored certain of its clients and did not seek to obtain best price and execution for certain of its clients in these cross-trades.

23. As a result of the conduct described above, Putnam violated Section 207 of the Advisers Act which makes it unlawful for any person willfully to make any untrue statement of a material fact in any registration application or report filed with the Commission, or willfully to omit to state in any such application or report any material fact which is required to be stated therein.[2] Part II of Putnam's Form ADV filed with the Commission contained materially false statements regarding Putnam's cross trading.

24. As a result of the conduct described above, Putnam violated Section 206(4) of the Advisers Act and Rule 206(4)-7 thereunder, which requires, among other things, that registered investment advisers adopt and implement written policies and procedures reasonably designed to prevent violations, by the investment adviser and its supervised persons, of the Advisers Act and rules. Specifically, Putnam did not adopt and implement procedures reasonably designed to

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[1] Negligence is sufficient to establish liability for causing a primary violation that does not require scienter. *See KPMG Peat Marwick LLP*, 54 S.E.C. 1135, 1175 (2001), *recon. denied*, 55 S.E.C. 1 (2001), *pet. denied*, 289 F.3d 109 (D.C. Cir. 2002).

[2] A willful violation of the securities laws means merely "'that the person charged with the duty knows what he is doing. It does not mean that, in addition, he must suppose that he is breaking the law.'" *Wonsover v. SEC*, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting *Hughes v. SEC*, 174 F.2d 969, 977 (D.C. Cir. 1949)).

ensure compliance with the cross trading prohibitions and, as a consequence, executed cross transactions in a manner that favored certain of its clients and did not seek to obtain best execution for certain of its clients.

25. As a result of the conduct described above, Harrison caused Putnam's violations of Section 206(2) of the Advisers Act, and willfully caused to be included in a report filed with the Commission under the Advisers Act a statement which was false or misleading with respect to a material fact.

26. As a result of the conduct described above, Putnam failed reasonably to supervise Harrison within the meaning of Section 203(e)(6) of the Advisers Act, with a view to preventing violations of the securities laws.

Putnam's Cooperation and Remedial Efforts

27. In determining to accept the Offer, the Commission considered remedial acts promptly undertaken by Putnam and cooperation afforded the Commission staff.

28. In mid-2016, Harrison disclosed to Putnam certain details of his conduct. Putnam terminated Harrison, retained outside counsel to conduct an internal investigation into the SCG's trading practices, and self-reported Harrison's suspected misconduct and the results of outside counsel's internal investigation to the staff of the SEC. Putnam has voluntarily placed $1,095,006.10 in escrow to be paid to compensate harmed clients.

29. Putnam also promptly retained a compliance consultant to review and make recommendations regarding the firm's policies and procedures related to cross trading and best execution. Putnam voluntarily implemented changes to its policies and procedures in response to the compliance consultant's recommendations, including by conducting a training session in early 2017 for all fixed income traders concerning Putnam's amended policies and procedures related to cross trading.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in the Respondents' Offers.

Accordingly, pursuant to Sections 203(e), 203(f), and 203(k) of the Advisers Act, and Sections 9(b) and 9(f) of the Investment Company Act, it is hereby ORDERED that:

A. Respondent Putnam cease and desist from causing any violations and any future violations of Sections 17(a)(1) and 17(a)(2) of the Investment Company Act, and from committing or causing any violations and any future violations of Sections 206(2), 206(4), and 207 of the Advisers Act and Rule 206(4)-7 promulgated thereunder;

B. Respondent Harrison cease and desist from causing any violations and any future violations of Sections 206(2) of the Advisers Act and Sections 17(a)(1) and 17(a)(2) of the Investment Company Act;

C. Respondent Harrison be, and hereby is suspended from association with any broker, dealer, investment adviser, municipal securities dealer, municipal advisor, transfer agent, or nationally recognized statistical rating organization or from serving or acting as an employee, officer, director, member of an advisory board, investment adviser or depositor of, or principal underwriter for, a registered investment company or affiliated person of such investment adviser, depositor, or principal underwriter for a period of nine months, effective upon the entry of this Order;

D. Within thirty (30) days of the entry of this Order, Respondent Putnam shall pay a civil money penalty in the amount of $1,000,000 and Respondent Harrison shall pay a civil monetary penalty of $50,000 to the United States Treasury. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. 3717. Payment must be made in one of the following ways:

a. Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

b. Respondent may make direct payment from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm; or

c. Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying the relevant Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Celia Moore, Assistant Director, Complex Financial Instruments Unit, Boston Regional Office, Securities and Exchange Commission, 33 Arch Street, 24th Fl., Boston, Massachusetts, 02110, or such other address as the Commission staff may provide.

E. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondents agree that in any Related Investor Action, Respondents shall not argue that Respondents are entitled to, nor shall Respondents benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondents agree that, within 30 days after entry of a final order granting the Penalty Offset, Respondents shall notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities

and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against one or more Respondents by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

By the Commission.

Brent J. Fields
Secretary