September 16, 1999

Mr. Lawrence J. Lasser
President
Putnam Investments
One Post Office Square
Boston, MA 02109

Dear Larry:

Thank you for your letter regarding the new mutual fund personal trading rules.

I am sorry that you do not agree with where we came out on the new rules. We thought long and hard about them and, in particular, how far they should go in limiting the investment activities of portfolio managers. I know that Paul Roye has talked with you about how we analyzed the question of new offerings. I agree that it is a good idea for mutual fund companies such as Putnam to preclude their portfolio managers from investing in new offerings. Of course, Putnam can easily waive such a ban when it makes no sense.

One of the things I have learned over the years is that when the SEC adopts a rule, everyone has to live with it for a long time, both when it makes sense and when it doesn't. For example, Neuberger & Berman is planning to go public. A ban on purchasing new offerings would prevent many employees of that firm from buying into the company, even though we all know that shares will be made available to them as a result of their employment. Could we have created an exception? Yes, but as we thought about it, it became clear that there were lots of sensible exceptions. If we had provided for them all, the rule would begin to look like the tax code.

We decided, instead, to defer to the judgment of mutual fund companies and their compliance officials. This allows a fund company to ban investment in all new offerings (and make selective waivers), or establish a pre-clearance procedure designed to protect

fund shareholders. I am confident that the mutual fund industry is up to the task. If the pre-clearance process does not prove to prevent abusive practices, we will consider a ban.

Thanks for your letter and for the updates on John and Ethan.

Best wishes,

Arthur Levitt
Chairman