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## Spitzer Probe Fallout: The Saga Continues

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The latest developments since BoardIQ's last issue:

- A whistleblower at **Putnam Investments** tipped Massachusetts state regulators off to improper market timing by 401(k) participants at Putnam spurring an investigation into trading abuses at the company. Since then both the state of Massachusetts and the SEC have filed fraud charges against Putnam for allowing large investors to market time funds against the companies stated policies and for failure to tell the funds' board about trading abuses involving the funds. In addition, the two regulators filed charges against two portfolio managers at Putnam for timing their own funds. The company announced it had uncovered a total of six company employees that were market timing Putnam Funds.
- Putnam Investments chief executive, Lawrence Lasser, resigned. Charles Haldeman, senior managing director and co-head of investments at Putnam, is slated to succeed Lasser as president and chief executive. In addition, Steven Spiegel, senior managing director and chief of global distribution, was named Putnam's vice chairman, a new position and A. J. C. "Ian" Smith, former CEO of **Marsh & McLennan**, was named to a new post of chairman of Putnam.
- State pension funds pulled upwards of \$4.4 billion out of Putnam funds.
- Democratic presidential hopeful Joe Lieberman unveiled several proposals for beefing up regulatory oversight of the fund industry and stamping out conflicts on fund boards.
- Panels in both the House and Senate held hearings on the trading scandal. Witnesses offered suggestions to clean up the industry, such as mandating chairmen of fund boards be independent and having fund compliance personnel report directly to the board. As a result, the Senate drafted a companion bill to Rep. Richard Baker's Mutual Funds Integrity and Fee Transparency Act.
- The SEC admitted to turning away two informants who took their leads to state regulators, including a Putnam call-center worker and one of three informants behind Eliot Spitzer's case against **Canary Capital Management**. Shortly thereafter, Juan A. Marcelino, the SEC's top official in Boston announced his resignation.
- Federal and state regulators announced an investigation into trading abuses at **Strong Capital**

**Management.** So far, the regulator has uncovered that chairman Richard Strong and possibly one other employee were timing the firm's funds. Investigators found that Richard Strong and his family and friends pocketed up to \$600,000 over five years by timing fund shares, despite the company's policies against such trading practices. Three days after the announcement, Mr. Strong announced he was stepping down as chairman of the Strong funds' board.

- Fund tracker **Morningstar** told investors to hold off making any new investments in funds offered by Putnam Investments and to limit their holdings in Alliance Funds to a small portion of their portfolio.
- In its third-quarter earnings announcement, **Janus** admitted to ponying up \$9 million in costs related to its role in the fund trading scandal.
- The ICI sent a three-part industry reform proposal to the SEC. The proposal includes a call for mandating investors trading through intermediaries make their orders well before the 4 p.m. close of trading and 2% redemption fees on fund shares.
- An SEC survey found that a quarter of the nation's largest brokerage firms helped clients engage in after-hours mutual fund trading. In the meantime, half of the 88 mutual fund companies surveyed had arrangements that allowed certain customers to engage in market timing of mutual funds and a third of them shared detailed information about their portfolio holdings with selected customers.
- The SEC charged five former brokers and two former managers at **Prudential Securities** with civil fraud. The complaint takes the employees to task for making millions of dollars from trades out of Prudential's Boston office, with help from their supervisors. The SEC says the brokers hid their identities and their customers' identities while they conducted market-timing trades.
- Investigators in New York State Attorney General Eliot Spitzer's office are investigating whether the U.S. arm of **Deutsche Bank** helped investors make illegal trades. Investigators are looking at Deutsche for two reasons: for helping investors make illegal after-hours trades in mutual funds and helping investors to do rapid trading in and out of funds, or market timing.
- Allegations of unethical trading practices at Janus caused the Colorado Public Employees Retirement Association's board to vote a Janus fund from its 401(k) plan.
- The SEC and New York State Attorney General Eliot Spitzer are looking into whether frequent trading by a Las Vegas investor and a hedge fund manager, who reached a settlement with the SEC in September, was going on at Alliance Capital Management. Regulators are focusing their investigation on a small Las Vegas brokerage called **Security Brokerage**. The firm was run by investor Daniel Calugar. Regulators believe that Calugar traded more than \$100 million of Alliance funds in return for \$20 million in investments in the company's hedge funds. Alliance ousted executives John Carifa and Michael Laughlin amid talks of the charges.
- Eliot Spitzer is poised to file market-timing charges against **Invesco, Strong, Alliance Capital and Security Trust**, according to reports. The firms face civil and/or criminal charges related to failure to prevent market timing by clients and possibly employees.
- New York State attorney general Eliot Spitzer has begun settlement talks with Janus, Strong, **Bank of America** and **Bank One** to settle allegations that they allowed certain investors to engage in market timing of different funds run by the four companies.

- In response to fund trading scandal, a Capitol Hill law firm has just formed a new investor rights group. Late last week, **McGuinness & Holch** announced the formation of the **Coalition of Mutual Fund Investors**. M & H is selling itself as a lobbying regulatory firm trying to give individual investors a voice on the Hill.

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