Siedle v. Putnam: Whistleblower's revenge?

By Alyssa A. Lappen

You don't want to mess with Edward Siedle's 401(k). Siedle, a former Securities and Exchange Commission attorney and legal counsel at Putnam Investments in the 1980s, received notice in late 1996 that Putnam had repossessed $20,381 from his defined contribution plan, insisting that it had made a mistake nine years earlier. To make matters worse, the big Boston-based mutual fund house later gave him back 25 percent of the money, saying it had made yet another mistake.

Siedle then complained to the Department of Labor and sent a copy of his letter to a trade publication. Putnam responded angrily in print, insisting that the firm had fired Siedle in 1988.

What started as a bookkeeping screw-up quickly erupted into a $40 million defamation suit — and more. In late July the 44-year-old Siedle sued both Putnam and its parent, Marsh & McLennan Cos., in Boston's Suffolk Superior Court. As part of the suit, Siedle, who had been the firm's director of regulatory compliance, reportedly alleges that he discovered in the late 1980s that some Putnam money managers engaged in front-running — delaying client trades to facilitate their own. Putnam chief executive Lawrence Lasser has denied the charges, though he has admitted taking action against one senior portfolio manager for personal trading violations.

Siedle also produced in court documents that seemed to contradict Putnam's assertion that he was fired. He provided an agreement executed with Putnam when he left the firm and an agreed-upon script designed to serve as a reference to potential employers stating that his performance had been satisfactory and that he had departed the firm by mutual consent.

The suit must be a vexing matter for Putnam, whose $250 billion under management includes more than $98 billion in the defined benefit and defined contribution markets. The firm has long promoted itself as squeaky clean. An advertising campaign in the early 1990s reminded investors that Massachusetts Supreme Judicial Court justice Samuel Putnam, a forebear of Putnam Investments' eponymous founder, authored the Massachusetts prudent-man rule.

In August 1997 the case was removed to the U.S. District Court in Boston. Hoping, presumably, to limit bad publicity, Putnam then requested an order that the documents and testimony be sealed (which they were). Putnam and Marsh Mac both moved to dismiss Siedle's complaint, and Putnam filed counterclaims against him.

In March the district court denied the motions to dismiss the complaint and a related motion to strike the apparent allegations concerning front-running. Meanwhile, over Putnam's objections, the district court ordered that the case file be unsealed.

In its appeal of that order, Putnam asserted in a court filing that Siedle had engaged in "a two-part scheme to extort money from Putnam by threatening to disclose its confidential, attorney-client-privileged information" — information that Putnam, nonetheless, characterized as "inaccurate and misleading." Putnam claims that Siedle asked for $1 million to $2 million in exchange for his not disclosing information. Siedle told *Institutional Investor* that any discussions were purely in response to calls from Putnam's lawyers indicating interest in settling the case and denied seeking a specific amount.

When a Putnam attorney complained at a court hearing that unsealing the case would threaten to disclose Putnam's attorney-client-privileged information, judge Joseph Tauro pooh-poohed that idea. "If you didn't have the sealing order," he snapped, "you probably would have to take an ad to get a story. The only time the newspapers come running in here is if you close the door. Otherwise you have to blow trumpets to get them in." After Putnam appealed, a three-judge panel of the U.S. Court of Appeals for the First Circuit unsealed most of the case.

Putnam nemesis Siedle: "Investors have a right to know"

The panel heard arguments May 7 about whether to open the rest of the documents as well, and in mid-June it decided to retain the seal for the time being. If the case is later opened and documents confirm Siedle's front-running charges, Putnam could be subject to criminal investigation and major client claims.

"Investors have a right to know information about the money managers they hire," says Siedle. "That is the underlying philosophy of the federal securities laws. Courts should never keep such information from investors."

So stay tuned. Putnam contends that if it loses the case, there will be no impact on either itself or the industry. But a Putnam defeat could mean that firms may have to ban money managers from trading for their own personal accounts — a longstanding, if controversial, practice. Blame Siedle and his 401(k).