

STATE OF WASHINGTON
DEPARTMENT OF FINANCIAL INSTITUTIONS
SECURITIES DIVISION

IN THE MATTER OF DETERMINING) Order Number S-04-012-07-CO01
whether there has been a violation of the)
Securities Act of Washington by:) CONSENT ORDER
)
OPPENHEIMERFUNDS DISTRIBUTOR, INC.,)
)
Respondent.)

INTRODUCTION

The Securities Division of the Washington Department of Financial Institutions (“the Division”) has completed an investigation into the activities of OppenheimerFunds Distributor, Inc. as a securities broker-dealer that offers and sells shares of mutual funds in the Oppenheimer Funds Complex in the State of Washington. Pursuant to the Securities Act of Washington, RCW 21.20, the Division and Respondent OppenheimerFunds Distributor, Inc. have agreed to enter into this Consent Order in settlement of this matter. Respondent acknowledges the Division’s jurisdiction and authority to enter this Order, agrees to entry of this Order, and neither admits nor denies the Findings of Fact or Conclusions of Law that follow.

FINDINGS OF FACT

I. Respondent

1. OppenheimerFunds Distributor, Inc. (“OFDI”) is a New York corporation with its principal place of business at 225 Liberty Street – 11th Floor, 2 World Financial Center, New York, New York. At all times relevant to this matter, OFDI was a securities broker-dealer registered with the Division and the Securities and Exchange Commission, and was a member firm of the National Association of Securities Dealers. At all times relevant to this matter, OFDI acted as the principal underwriter and distributor for the mutual funds in the Oppenheimer Funds Complex (“Oppenheimer Funds” or “the funds”), and offered shares of the funds for sale in Washington State through financial intermediaries that had selling agreements with OFDI.

1 *II. Nature of the Violations*

2 2. From 1987 through 1994, Respondent OFDI entered into Telephone Exchange Agreements
3 (“TEAs”) with a number of financial intermediaries (the “TEA firms”). The TEA firms were permitted to
4 submit mutual fund exchange requests on behalf of their clients in bulk, regardless of whether the firm
5 was the broker of record on the accounts. The TEA firms initially placed bulk exchange requests for their
6 clients using exchange forms; later, as mutual funds offered exchange privileges by phone, the firms made
7 requests by telephone. Non-TEA advisory firms could not place bulk exchange requests for client
8 accounts directly with OFDI unless the firm was the broker of record on the accounts.

9 3. The TEAs allowed bulk exchanges in the thirteen Oppenheimer Funds with the greatest liquidity.
10 TEA firms were also permitted to exchange up to 400% of their assets under management each year, but
11 were required to comply with exchange limitations established by Oppenheimer Funds’ prospectuses.
12 TEA firms only had until 11:00 a.m. Mountain Time to submit exchange requests, while all other
13 shareholders had until 2:00 p.m. Mountain Time. Exchanges involving more than 100 accounts, \$500,000
14 in one fund, or \$1,000,000 in a combination of funds (called “high-volume” exchanges) were required to
15 be submitted one business day in advance of the exchange date. Because certain large exchanges had the
16 potential to cause liquidity problems in the funds, OFDI could delay them by up to five business days to
17 generate cash for the exchange, and retained the right to limit or refuse exchanges if, in its judgment, the
18 exchanges would be disruptive to the funds involved.

19 4. Respondent OFDI created a Bulk Exchange Desk to receive, execute, and monitor all bulk
20 exchanges. They provided TEA firms with monthly position reports showing asset balances within the
21 Oppenheimer Funds, and provided notice of when the TEA firms were approaching the 400% limit on
22 exchanges. The Bulk Exchange Desk also provided the Oppenheimer Funds portfolio department with
23 monthly position reports and advance notice of high-volume exchanges.

1 5. From 2000 through 2003, the TEA firms' bulk exchange activity caused the funds to experience
2 both positive and negative dilution, resulting in negative dilution in nine of the thirteen funds involved.

3 6. From 2000 through 2003, Respondent OFDI failed to maintain adequate records and
4 appropriately monitor the bulk exchange activity of the TEA firms.

5 7. From 2000 through 2003, Respondent OFDI failed to disclose the existence of the TEAs in
6 Oppenheimer Funds prospectuses, statements of additional information, and other documents distributed
7 in Washington.

8
9 Based on the above Findings of Fact, the following Conclusions of Law are made:

10 **CONCLUSIONS OF LAW**

11 1. The mutual fund shares offered and sold by Respondent OppenheimerFunds Distributor, Inc.
12 described above constitute the offer and sale of a security as defined in RCW 21.20.005(10) and (12).

13 2. Respondent OppenheimerFunds Distributor, Inc. has violated RCW 21.20.010 by engaging in the
14 above-described conduct.

15 3. This Order is necessary and appropriate in the public interest and for the protection of investors.
16

17 **ORDER**

18 On the basis of the Findings of Fact, Conclusions of Law, and Respondent OFDI's consent to the entry
19 of this Order, for the sole purpose of settling this matter, prior to a hearing and without admitting or
20 denying any of the Findings of Fact or Conclusions of Law,

21 IT IS AGREED AND ORDERED, pursuant to RCW 21.20.390, that Respondent OppenheimerFunds
22 Distributor, Inc. and its officers, directors, employees, and successors shall each cease and desist from
23 offering and/or selling securities in any manner in violation of RCW 21.20.010.

1 IT IS FURTHER AGREED AND ORDERED, pursuant to RCW 21.20.390, that Respondent
2 OppenheimerFunds Distributor, Inc. shall terminate the Telephone Exchange Agreements.

3 IT IS FURTHER AGREED AND ORDERED, pursuant to RCW 21.20.390(6), that Respondent
4 OppenheimerFunds Distributor, Inc. shall pay \$394,500 in restitution to the impacted Oppenheimer Funds.

5 IT IS FURTHER AGREED AND ORDERED, pursuant to RCW 21.20.390(4), that Respondent
6 OppenheimerFunds Distributor, Inc. shall pay to the State of Washington a fine in the amount of \$100,000.

7 IT IS FURTHER AGREED AND ORDERED, pursuant to RCW 21.20.390(5), that Respondent
8 OppenheimerFunds Distributor, Inc. shall pay to the State of Washington the expenses incurred by the
9 Division during the course of this investigation in the amount of \$175,000.

10 IT IS FURTHER AGREED that documents evidencing termination of the TEAs, documents
11 evidencing payment of restitution to the Oppenheimer Funds, and payment of the fines and costs to the
12 State shall be delivered to the State within thirty days of the entry of this Consent Order.

13 IT IS FURTHER AGREED that this Consent Order is not intended by the Department of Financial
14 Institutions, Securities Division to subject OppenheimerFunds Distributor, Inc., or any Covered Person, to
15 any disqualifications under the laws of the United States, any state, the District of Columbia or Puerto
16 Rico, including, without limitation, any disqualifications from relying upon the state or federal registration
17 exemptions or safe harbor provisions, and any disqualifications from relying upon Washington's
18 registration exemptions or safe harbor provisions that arise from the Consent Order are hereby waived.

19 "Covered Person" means OFDI, or any of its officers, directors, employees, affiliates, successors, or other
20 related persons that otherwise could be disqualified as a result of this Consent Order.

21 IT IS FURTHER AGREED that Respondent OppenheimerFunds Distributor, Inc. agrees not to take
22 any action or to make or permit to be made any public statement denying, directly or indirectly, any
23 finding in this Consent Order or creating the impression that this Order is without factual basis. Nothing
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