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April 22, 1985

Act I CA - 40
Section 18(f)
Rule
Public Availability 6/3/85

Securities and Exchange Commission
Judiciary Plaza
450 Fifth Street, N.W.
Washington, D.C. 20549

Attention: Sidney L. Cimmet, Chief Counsel,
Division of Investment Management

Re: Putnam High Income Government Trust

Gentlemen:

Putnam High Income Government Trust (the "Fund") is a diversified open-end investment company which was established as a Massachusetts business trust under the laws of Massachusetts by an Agreement and Declaration of Trust dated December 7, 1984. The Fund is managed by The Putnam Management Company, Inc. Putnam Financial Services, Inc. is the distributor of the Fund's shares. Enclosed are three copies of Pre-Effective Amendment No. 2 to the Fund's Registration Statement under the Securities Act of 1933 and the Investment Company Act of 1940 (the "1940 Act"), reflecting staff comments and other revisions. The Registration Statement was declared effective on February 27, 1985. The Fund had net assets of $100,000 on December 17, 1984, which were contributed by its investment manager. The Fund proposes to commence a public offering of its shares as soon as practicable.

The Fund's investment objective is to seek a high current return, consistent with preservation of capital, through investments in U.S. government securities. The Fund will seek to increase its current return by writing covered call and put options. The Fund may also hedge its portfolio through the purchase of put and call options, and the purchase and sale of futures contracts and related options. The Fund will not sell futures contracts or write call options if the value of such positions exceeds the current market value of its portfolio.

Financial futures contracts and related options, and the commodities exchanges on which they are traded, are subject to regulation by the Commodity Futures Trading Commission ("CFTC") under the Commodities Exchange Act ("CEA"). The Fund is seeking a no-action letter from the CFTC that the Fund is not a commodity "pool" under Section 4.10(d) of the CFTC's Regulations and that the Fund will not be a "commodity pool operator" as defined in Section 2(a)(1)(A) of the CEA.

The Prospectus provides that the Fund may not engage in futures contracts and related options transactions until it obtains a no-action letter or other appropriate regulatory relief under the 1940 Act.

Writing Call and Put Options

The Fund may write covered call and put options on U.S. government securities. The Fund will only write covered options, which means that, so long as the Fund is obligated as the writer of a call option, it will own the underlying securities subject to the option (or comparable securities satisfying the cover requirements of securities exchanges and the requirements discussed in Investment Company Act Release No. 7221 (June 9, 1972)). In the case of put options, the Fund will maintain short-term U.S. government securities with a value equal to or greater than the exercise price of the underlying securities in a segregated account.

Purchasing Put and Call Options

The Fund may purchase put options to protect its portfolio holdings in an underlying security against a substantial decline in market value. The Fund may purchase call options to hedge against an increase in prices of securities the Fund intends ultimately to buy. The Fund will invest no more than five percent of its assets in the purchase of put and call options on U.S. government securities.

Futures Transactions and Related Options

The Fund may purchase and sell futures contracts with respect to U.S. government securities, purchase and write call and put options on futures contracts and enter into closing transactions with respect to those options. The Fund will not enter into any transactions involving futures contracts or related options until it has obtained appropriate regulatory relief from the Securities and Exchange Commission and the CFTC. Should the Fund receive such relief, it will not purchase or sell futures contracts or related options if as a result the sum of the initial margin deposits on the Fund's existing futures and related options and premiums paid for options on futures contracts would exceed 5% of the Fund's assets.

No consideration is paid or received by the Fund upon the purchase or sale of a financial futures contract or the sale of a related call or put option written by the Fund. Initially, the Fund will be required to deposit an amount of cash or U.S. Treasury obligations equal to approximately 5% of the futures contract amount plus, in the case of the sale (writing) of a related option, a specific dollar amount for each option written. This amount will be deposited for the account and in the name of the broker, in a segregated account with State Street Bank and Trust Company, the Fund's Custodian. This deposit is known as the initial margin. The nature of initial margin in futures transactions and in written options on futures is different from that of margin in security transactions in that margin with respect to futures contracts and written options does not involve borrowing funds to finance transactions. The initial margin is in the nature of a performance bond or good faith deposit on the contract which is returned to the Fund upon termination of the futures contract, assuming all contractual obligations have been satisfied, or upon the closing of options written by the Fund.

The amount of initial margin on deposit may be retained by the broker only if the Fund defaults in making payment on termination of the futures contract or of the variation margin, and upon representation by the broker to the Custodian that all conditions precedent to its right to the initial margin have been satisfied. Variation margin is the payment on a daily basis to and from the broker, in a process known as "marking to market," as the price of the futures contract fluctuates thereby making the long and short positions in the futures contract more or less valuable, or as the price of the written put or call option fluctuates. Variation margin does not represent a borrowing or loan by the Fund but is instead the daily settlement between the Fund and the broker of the amount one would owe the other if on such day the contract expired or if the written option were exercised. For example, when the Fund has purchased a futures contract and the price of the underlying security has risen, that futures position will have increased in value and the Fund will receive from the broker a variation margin payment equal to that increase. Conversely, if the price of the underlying security falls, the Fund's futures position will decline in value and the Fund will make a variation margin payment to the Custodian or broker equal to that decline.

The Fund undertakes that, on the occasions that it has the right to receive variation margin payments from the broker, it will promptly demand payment by the broker of such amounts upon notification by the broker that such amounts are payable. Any such funds received by the Fund will be held by the Fund's Custodian. At any time prior to the expiration of the futures contract or the written option, the Fund may elect to close the position by taking an opposite position which will operate to terminate the Fund's position in the futures contract or the written option. A final determination of variation margin will then be made, and if additional cash is required to be paid by or released to the Fund, the Fund will realize a loss or a gain.

The Fund represents that, in connection with its request to the CFTC that such agency opine that the Fund is not within the definition of "commodity pool operator" and that the Fund will not be treated as a "pool" under the CEA, it has undertaken that its sales of futures contracts, its writing of related call options and its purchase of related put options will be solely for purposes of protecting its portfolio against a decline in value. The Fund's purchase of futures contracts and related call options and its writing of related put options will be solely for the purpose of protecting the Fund against an increase in value in securities it wants eventually to buy.

The Fund will cover or collateralize options on futures that it writes. The Fund also represents that, in connection with its request to the CFTC, it has stated its expectation to complete a substantial majority of so-called "long" hedge involving the purchase of futures contracts and related call options and the writing of related put options. To insure that the Fund will be able to complete such long hedges it will deposit in a segregated account with its Custodian cash, short-term U.S. government securities or money market instruments equal in value to the fluctuating market value of any futures contracts purchased by the Fund and the exercise price of any related call options purchased or related put options written by the Fund, less in each case any margin deposits thereon. These segregated funds will not be used to support any other transaction in which the Fund may enter for the duration of the futures contract or related option. The collateralization of futures and related options makes the use of such futures and related options consistent with the types of arrangements discussed in Investment Company Act Release 10666 (April 18, 1979) ("Release 10666").

Sections 17(f) and 18(f)(1) of the 1940 Act

Section 18(f)(1)of the 1940 Act limits the issuance of senior securities by an open-end registered investment company. The purchase and sale of futures contracts and the sale of related options may constitute the issuance of a senior security because of the Fund's obligation to pay variation margin during the life of the instrument and to purchase or sell the underlying securities upon maturity of the instrument. To the extent that variation margin payments owed to the Fund in connection with a futures contract or the sale of a related option are held by a broker, the Fund may be unable to comply with the provisions of Section 17(f) of the 1940 Act.

The Fund requests your advice to the effect that the Division of Investment Management would not recommend enforcement action to the SEC under the provisions of Section 18(f)(1) and 17(f) of the 1940 Act if the Fund engages in the options and futures transactions described above.

The Fund believes that its use of futures contracts and related options for the purpose of hedging and the limitations placed on the Fund with respect to such futures contracts and options do not give rise to the speculative abuses that Section 18(f)(1) was designed to prevent. The limitation on the Fund's use of such contracts and options and its undertaking, in connection with the purchase of futures contracts and related call options and the writing of related put options, to deposit in a segregated account cash, U.S. government securities or other cash equivalents equal to the cost of completing such transactions are consistent with the procedures set forth in Release 10666 to minimize the speculative leverage aspects of the investments that were the subject of such Release.

The Fund also believes that if futures contracts and related options are "securities" or "similar investments" within the meaning of Section 17(f) of the 1940 Act, a separate custodian agreement among the Fund, its, Custodian and the futures commission merchant, pursuant to which the Fund's margin deposits are held by the Custodian subject to disposition by the futures commission merchant in accordance with CFTC Rules and the rules of the applicable commodities exchange, will be consistent with the provisions of Section 17(f).

We refer you to the following no-action letters previously issued by the Staff of the Commission with respect to the foregoing issues. IDS Bond Fund, Inc. (available April 11, 1983), SteinRoe Bond Fund, Inc. (available January 17, 1984), Pension Hedge Fund, Inc. (available January 20, 1984), Z-Seven Fund Inc. (available May 21, 1984), Colonial Option Growth Trust (available June 15, 1984), Colonial Government Securities Plus Trust (available June 15, 1984), Colonial Option Income Trust - - Portfolio II (available September 10, 1984), Pilot Fund, Inc. (available October 22, 1984).

Requested Relief

Based on the information discussed above, the Fund requests your advice that the Division of Investment Management would not recommend enforcement action under Section 18(f)(1) or 17(f) of the 1940 Act if the Fund engages in the transactions described above.

If further information is required with respect to this request, would you kindly telephone the undersigned.

Very truly yours,

John W. Gerstmayr

John W. Gerstmayr

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RESPONSE OF THE OFFICE OF CHIEF COUNSEL
DIVISION OF INVESTMENT MANAGEMENT

Our Ref. No. 85-214-CC
Putnam High Income
Government Trust
File No. 811-4178

We would not recommend any enforcement action to the Commission against the Putnam High Income Government Trust if it engages in futures and options transactions as described in your letter of April 22, 1985. Our position is based on the facts and representations contained in your letter.

Stephanie M. Monaco

Stephanie M. Monaco
Attorney