UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 52420 / September 14, 2005

INVESTMENT ADVISERS ACT OF 1940
Release No. 2427 / September 14, 2005

INVESTMENT COMPANY ACT OF 1940
Release No. 27065 / September 14, 2005

ADMINISTRATIVE PROCEEDING
File No. 3-12038

In the Matter of **OPPENHEIMERFUNDS, INC. and OPPENHEIMERFUNDS DISTRIBUTOR, INC.,** **Respondents.**	**ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS AND A CEASE-AND-DESIST ORDER PURSUANT TO SECTIONS 203(e) AND 203(k) OF THE INVESTMENT ADVISERS ACT OF 1940, SECTIONS 9(b) AND 9(f) OF THE INVESTMENT COMPANY ACT OF 1940, AND SECTION 15(b) OF THE SECURITIES EXCHANGE ACT OF 1934**

I.

The Securities and Exchange Commission ("Commission") deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant Sections 203(e) and 203(k) of the Investment Advisers Act of 1940 ("Advisers Act"), Sections 9(b) and 9(f) of the Investment Company Act of 1940 ("Investment Company Act"), and Section 15(b) of the Securities Exchange Act of 1934 ("Exchange Act") against OppenheimerFunds, Inc. ("OFI") and OppenheimerFunds Distributor, Inc. ("OFDI") (collectively "Respondents").

II.

In anticipation of the institution of these proceedings, Respondents have submitted an Offer of Settlement (the "Offer") that the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to

which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over them and the subject matter of these proceedings, the Respondents consent to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order Pursuant to Sections 203(e) and 203(k) of the Investment Advisers Act of 1940, Sections 9(b) and 9(f) of the Investment Company Act of 1940, and Section 15(b) of the Securities Exchange Act of 1934 ("Order"), as set forth below.

III.

On the basis of this Order and Respondents' Offer, the Commission finds that:

Respondents

OFI is an investment adviser registered with the Commission and headquartered in New York, NY. OFI provides investment advisory, portfolio management, and administrative services to a majority of the mutual funds in the Oppenheimer Funds Complex. As of June 30, 2004, OFI had over $155 billion in assets under management.

OFDI is a broker-dealer registered with the Commission and headquartered in New York, NY. It acts as the principal underwriter and distributor of shares of most of the U.S.-registered mutual funds in the Oppenheimer Funds Complex. OFDI is a wholly-owned subsidiary of OFI.

Overview

Between at least January 1, 2000 and June 2003 ("the relevant period"), OFI and OFDI used brokerage commissions on trades executed for some of the Funds in the Oppenheimer Funds Complex (the "Oppenheimer Funds" or "Funds") to reduce OFDI's revenue sharing obligations with certain broker-dealers. By using Fund assets in the form of brokerage commissions, OFI and OFDI avoided having to expend their own assets to meet revenue sharing obligations. OFI and OFDI did not tell the four boards of directors/trustees of the Oppenheimer Funds ("Fund Boards") or the Fund shareholders that the Funds' brokerage commissions were used to reduce OFDI's revenue sharing obligations. The Fund Boards were therefore unaware of the potential conflict of interest raised by the use of the Funds' assets to pay for marketing and distribution arrangements that OFDI had with broker-dealers. OFI similarly failed to inform the Funds' shareholders in the Funds' prospectuses or Statements of Additional Information ("SAIs") that OFI and OFDI used the Funds' assets to reduce OFDI's revenue sharing obligations.

As investment adviser, OFI provided investment advisory and portfolio management services. As distributor, OFDI marketed and distributed the Oppenheimer Funds through broker-dealers. In marketing these Funds, OFDI entered into revenue sharing arrangements with certain intermediary firms using its own resources to promote sales of the Oppenheimer Funds and, in some cases, allocated brokerage commissions to recognize a broker-dealer's sale of fund shares (hereinafter, the latter referred to as "Sales-Recognition Directed Brokerage").

Sales-Recognition Directed Brokerage

OFI, on occasion, considered a broker-dealer's sale of Oppenheimer Fund shares as a factor in the selection of broker-dealers for its portfolio transactions. If a particular broker-dealer sold a large amount of Oppenheimer Funds over a period of time, OFI often rewarded that broker-dealer by selecting it to execute OFI's portfolio transactions. The reward to the broker-dealer was the brokerage commission that paid for the portfolio transaction.

OFI disclosed the existence of Sales-Recognition Directed Brokerage to the Fund Boards and to the Fund shareholders. OFI disclosed Sales-Recognition Directed Brokerage in three principal ways: (i) disclosures to the Fund Boards in annual brokerage reports, (ii) disclosures to the Fund Boards in investment advisory agreements, and (iii) disclosures to the Fund shareholders in the Fund prospectuses and SAIs.

In annual brokerage reports, OFI disclosed that "[s]ubject to the requirement of best execution, NASD Conduct Rule 2830(k)(3) expressly permits NASD members to recognize sales of fund shares in paying brokerage commissions." In addition, OFI disclosed the specific amount of Sales-Recognition Directed Brokerage in its annual brokerage reports to the Fund Boards.

In the investment advisory agreements between OFI and the Funds, the Funds authorized OFI "to consider sales of shares of the fund and the other funds advised by [Oppenheimer] and its affiliates as a factor in the selection of broker-dealers for its portfolio transactions."

In the SAIs, OFI disclosed, in part, that "subject to [best execution] considerations, as a factor in selecting brokers for the Fund's portfolio transactions, the Manager may also consider sales of shares of the Fund and other investment companies for which the Manager or an affiliate serves as investment advisor."

Revenue-Sharing Arrangements

Between at least January 1, 2000 and June 2003, OFDI had "revenue sharing" arrangements from time to time to gain access to the broker-dealers' distribution systems. OFDI's payments for revenue sharing in some cases resulted in placement on certain broker-dealers' "preferred lists" of mutual funds, increased access to brokers' registered representatives, placement on the brokers' websites, and participation in broker conferences, among other things. Unlike the gratuitous and after-the-fact nature of Sales-Recognition Directed Brokerage, revenue sharing arrangements were subject to mutually agreed upon terms. Normally, OFDI made revenue sharing payments from its resources, in cash.

During the relevant period, payments under OFDI's revenue sharing arrangements totaled about $90 million. The payment terms for the arrangements varied, but in general OFDI agreed to pay from 10 to 50 basis points ("bps") on mutual fund sales and 2 to 25 bps on assets under management. These arrangements, for the most part, were oral and never reduced to writing.

As a general matter, OFI did not disclose the specific terms of revenue sharing arrangements to the Fund Boards. With respect to shareholder disclosures, the Funds'

prospectuses and SAIs stated that "[t]he Distributor may pay additional compensation from its own resources to securities dealers or financial institutions based upon the value of shares of the Fund owned by the dealer or financial institution for its own account or for its customers." (emphasis added).

Revenue-Sharing Directed Brokerage

In the case of approximately 25 broker-dealers, OFDI, instead of exclusively using cash from its own resources, used brokerage commissions to reduce cash payments under those revenue sharing arrangements (hereinafter, "Revenue-Sharing Directed Brokerage"). In calculating the amount of brokerage commissions used to reduce revenue sharing payments, in some instances, broker-dealers required OFDI to pay more in brokerage commissions than it otherwise would have paid in cash. Specifically, OFDI and the broker-dealers used a ratio to convert brokerage commission amounts into cash, or "hard dollars." For example, if a particular revenue sharing arrangement obligated OFDI to pay $100,000 in cash to a broker-dealer for fund sales and assets, some broker-dealers would allow OFDI to satisfy the arrangement with $130,000 in brokerage commissions pursuant to an agreed ratio of 1:1.3. Most of these conversion ratios were flat (*i.e.*, a 1:1 ratio), but approximately 25-35% of the revenue sharing arrangements used ratios of greater than 1:1.

OFI did not disclose the specific practice of Revenue-Sharing Directed Brokerage to either the Fund Boards or the Fund shareholders. Rather, from a disclosure standpoint, OFI mistakenly treated these commissions as Sales-Recognition Directed Brokerage. OFI included Revenue-Sharing Directed Brokerage payments in the amount of Sales-Recognition Directed Brokerage that it disclosed in its annual brokerage reports, without disclosing that a subset of the combined amount represented Revenue-Sharing Directed Brokerage.

Respondents' Conduct

OFI, as a fiduciary, had a duty to disclose conflicts of interest to the Fund Boards and to disclose material information that would expose the actual and potential conflicts of interest it faced relating to the use of Fund assets in connection with revenue sharing arrangements. OFI failed to disclose the practice of Revenue-Sharing Directed Brokerage to the Fund Boards. By reducing some revenue sharing payments with the Funds' brokerage commissions, OFI permitted its subsidiary to avoid an expense it otherwise would have incurred. OFI had an obligation to fully and fairly disclose this to the Fund Boards, so the Fund Boards could determine if it was in the best interest of Fund shareholders.

OFI was primarily responsible for ensuring that the Funds' prospectuses and SAIs were in compliance with the requirements of Form N-1A in describing OFI's trading practices for the Oppenheimer Funds.[1] The information the Commission requires investment companies to disclose in prospectuses and SAIs is set forth in Form N-1A. Specifically, Item 16(c)[2] of the Form N-1A

[1] The OppenheimerFunds' SAI is incorporated by reference into the prospectuses.

[2] As of July 4, 2004, the relevant item of the Form N-1A has been changed from Item 16(c) to Item 15(c).

requires a description in the SAI of "how the Fund will select brokers to effect securities transactions for the Fund" and requires that "[i]f the Fund will consider the receipt of products or services other than brokerage or research services in selecting brokers, [the Fund should] specify those products or services."

During the relevant period, the SAIs disclosed that OFI may consider sales of shares of the Oppenheimer Funds as a factor in the selection of broker-dealers to execute the Funds' portfolio transactions. The SAI did not make the distinction between directing commissions "in consideration of fund sales" and using brokerage commissions to reduce revenue sharing obligations. The SAI did not adequately disclose to shareholders that OFDI had entered into revenue sharing arrangements for distribution services for which OFI directed brokerage commissions. The failure to disclose this fact was a material omission that should have been disclosed to avoid misleading shareholders.

When Respondents used Revenue-Sharing Directed Brokerage, they did not ensure that these commissions came from those funds that were promoted by the broker-dealers in connection with the revenue sharing arrangements. Moreover, during the relevant period, Respondents did not apply for and the Commission did not grant an exemption from the statutory provisions that prohibit such joint enterprises or arrangements.

Remedial Actions Taken By The Respondents

In June 2003, OFI and OFDI stopped using both Sales-Recognition Directed Brokerage and Revenue-Sharing Directed Brokerage and also retained an outside law firm to review OFDI's revenue sharing practices and report on those practices to the Fund Boards.

After that review was completed, senior management of OFI, following discussions with the Fund Boards, determined that some form of payment should be made to the Funds, and OFI's Internal Audit Department was directed to review all portfolio brokerage transactions for the years 2000, 2001, 2002, and 2003 (through the mid-year voluntary termination of the practice) to determine the amount of Revenue-Sharing Directed Brokerage for those years. In April 2004, after further discussions with the Fund Boards, OFI voluntarily offered to reimburse the Funds for the gross amount of the Revenue-Sharing Directed Brokerage, which was approximately $15.8 million. On May 28, 2004, OFI voluntarily paid that sum to the affected Funds.

Based on the application of ratios that convert brokerage commissions into cash, OFDI only received credit against revenue sharing obligations of approximately $12.45 million out of this $15.8 million. Accordingly, OFI's $15.8 million payment to its Funds actually represented a payment of approximately $3.35 million over and above the benefit OFDI received.

Legal Discussion

Section 206(2) of the Advisers Act provides that it is "unlawful for any investment adviser, by the use of the mails or any means of instrumentality of interstate commerce, directly or

indirectly . . . to engage in any transaction, practice, or course of business which operates as a fraud or deceit upon any client or prospective client."

Section 15(c) of the Investment Company Act provides in pertinent part that it shall be "the duty of the directors of a registered investment company to request and evaluate, and the duty of an investment adviser to such company to furnish, such information as may be reasonably necessary to evaluate the terms of any contract whereby a person undertakes regularly to serve or act as an investment adviser of such company."

Section 17(d) of the Investment Company Act and Rule 17d-1 thereunder provide in pertinent part that it is unlawful for any "affiliated person of or principal underwriter for any registered investment company . . . , acting as principal, [to] participate in, or effect any transaction in connection with, any joint enterprise or other joint arrangement or profit-sharing plan in which any such registered company . . . is a participant . . . unless an application regarding such joint enterprise profit-sharing plan has been filed with the Commission and has been granted by an order entered prior to the submission of such plan [.]"

Section 34(b) of the Investment Company Act provides in pertinent part that it is "unlawful for any person to make any untrue statement of a material fact in any registration statement . . . filed or transmitted pursuant to" the Investment Company Act and to "omit to state therein any fact necessary in order to prevent the statements made therein, in light of the circumstances under which they were made, from being materially misleading."

Violations

As a result of the conduct described above:

a. OFI willfully[3] violated Section 206(2) of the Advisers Act, Sections 15(c) and 34(b) of the Investment Company Act, and Section 17(d) of the Investment Company Act and Rule 17d-1 thereunder.

b. OFDI willfully[4] aided and abetted and caused OFI's violations of Section 206(2) of the Advisers Act, and willfully violated Section 17(d) of the Investment Company Act and Rule 17d-1 thereunder.

[3] "Willfully" as used with respect to the direct violations in this Order means intentionally committing the act that constitutes the violation. *See Wonsover v. SEC*, 205 F.3d 408, 414 (D.C. Cir. 2000); *Tager v. SEC*, 344 F.2d 5, 8 (2d Cir. 1965). There is no requirement that the actor also be aware that it is violating one of the Rules or Acts.

[4] "Willfully" as used with respect to the aiding and abetting violations in this Order means knowingly committing the act that constitutes the violation. *Cf. Wonsover v. SEC*, 205 F.3d 408, 414 (D.C. Cir. 2000); *Tager v. SEC*, 344 F.2d 5, 8 (2d Cir. 1965).

Certain Remedial Efforts and Credit for Prior Payment

In determining to accept the Respondents' Offer, the Commission considered remedial acts promptly and voluntarily undertaken by Respondents and cooperation afforded the Commission staff. In particular, the Commission considered the following: OFI's senior management discontinued the practice of Revenue-Sharing Directed Brokerage and hired an outside law firm to review the practice. In addition, OFI directed its Internal Audit Department to determine the financial impact of Revenue-Sharing Directed Brokerage.

OFI thereafter voluntarily paid to the Funds approximately $15.8 million, which represented the gross amount of brokerage commissions that had been used to reduce revenue sharing cash payments. In recognition of this prior payment, as well as Respondents' prompt and voluntary cessation of the practice of Revenue-Sharing Directed Brokerage, their investigation thereof and their cooperation with the Commission staff, the Commission is not ordering OFI to pay disgorgement of approximately $12.45 million, prejudgment interest of approximately $1.4 million, or a civil penalty.

Undertakings

OFI and OFDI undertake the following:

a. OFI and OFDI shall, within 90 days from the date of entry of the Order, require a senior level employee to implement and maintain the following written compliance policies and procedures:

   i. Procedures designed to ensure that when the OFI trading desk places trades with a broker-dealer that also sells fund shares, the person responsible for selecting such broker-dealer does not take into account the broker-dealer's promotion or sale of Oppenheimer Fund shares, subject to modification in the event that the independent members of the Oppenheimer Fund Boards determine that such modification is in the best interest of the Oppenheimer Funds;

   ii. OFI will establish guidelines for entering into revenue sharing arrangements[5] between OFI or OFDI and broker-dealers and other intermediaries concerning the sale of fund shares, which shall not be inconsistent with the terms of the Order. The language of the guidelines must be presented to the Oppenheimer Fund Boards and approved by OFI's Chief Legal Officer. The guidelines shall require OFDI to use its best efforts to enter into written contracts

[5] As used in the Undertakings section herein, "revenue sharing arrangements" are arrangements by which payments are made to broker-dealers from the assets of OFI or OFDI relating to the sale of Oppenheimer Funds and/or assets maintained in the Oppenheimer Funds other than (i) dealer concessions, 12b-1 fees, shareholder servicing payments, or sub-accounting payments or (ii) non-cash compensation arrangements as expressly permitted by NASD Rule 2820(g)(4) or Rule 2830(l)(5) (or any successor to either such rule).

memorializing the revenue sharing arrangements between OFDI and the broker-dealer or other intermediary. The documentation of each revenue sharing arrangement in respect of fund sales will set forth the payment arrangement and the services that the broker-dealer or other intermediary will provide. The documentation of each revenue sharing arrangement shall also include a request from OFI or OFDI that the broker-dealer or other intermediary provide point of sale disclosure documents consistent with then current legal requirements;

iii. All revenue sharing arrangements concerning the sale of fund shares must be approved in writing by OFI's Chief Legal Officer, or his delegate, and the form of any such arrangements, or any material deviation therefrom, presented to the Oppenheimer Fund Boards prior to implementation;

iv. Subject to the approval of the Oppenheimer Fund Boards, OFI will prepare disclosures for the Oppenheimer Funds to include in their prospectuses or SAIs information about payments made by OFI or OFDI to broker-dealers or other intermediaries in respect of the sale of fund shares in addition to dealer concessions, shareholder servicing payments, and payments for services that OFI or an affiliate otherwise would provide, such as sub-accounting, and state that such payments are intended to compensate broker-dealers for various services, including without limitation, placement on the broker-dealer's preferred or recommended fund list, access to the broker-dealers' registered representatives, assistance in training and education of personnel, marketing support, and other specified services;

v. At least once per year, OFI will make presentations to the Oppenheimer Fund Boards (or any other committee performing similar functions or designated by the Oppenheimer Fund Boards), including an overview of OFI's or OFDI's revenue sharing arrangements and policies, any material changes to such policies, the number and types of such arrangements, the types of services received, the identity of participating broker-dealers or other intermediaries and the total dollar amounts paid to such broker-dealers and intermediaries. OFI shall also provide the Oppenheimer Fund Boards (or any other committee performing similar functions or designated by the Oppenheimer Fund Boards) with a summary quarterly report setting forth amounts paid by OFI or OFDI for such arrangements and the broker-dealers and intermediaries that received such payments;

vi. At least once per year, for at least five years, OFI shall continue to provide the Oppenheimer Fund Boards (or any other committee performing similar functions or designated by the Oppenheimer Fund Boards) with a best execution analysis. In such analyses, OFI shall include lists of: (a) the top ten executing broker-dealers used by OFI and (b) the top ten selling broker-dealers conducting business with OFDI; and

vii. OFI shall develop policies and procedures to ensure that fund administrative expenses are not used to finance the distribution of Oppenheimer Funds.

IV.

In view of the foregoing, the Commission deems it appropriate, in the public interest to impose the sanctions specified in the Offer submitted by Respondents.

Accordingly, pursuant to Sections 203(e) and 203(k) of the Advisers Act, Sections 9(b) and 9(f) of the Investment Company Act, and Section 15(b) of the Exchange Act, it is hereby ORDERED that**:**

A. OFI and OFDI are censured.

B. OFI shall cease and desist from committing or causing any violations and any future violations of Section 206(2) of the Advisers Act, Sections 15(c) and 34(b) of the Investment Company Act, and Section 17(d) of the Investment Company Act, and Rule 17d-1 thereunder.

C. OFDI shall cease and desist from committing or causing any violations and any future violations of Section 206(2) of the Advisers Act, and Section 17(d) of the Investment Company Act, and Rule 17d-1 thereunder.

D. OFI and OFDI shall comply with the undertakings enumerated in Section III. above.

By the Commission.

Jonathan G. Katz
Secretary