

DEPARTMENT OF LABOR

Employee Benefits Security Administration

29 CFR Part 2510

RIN 1210-AB32

Definition of the Term “Fiduciary”

AGENCY: Employee Benefits Security Administration, Labor.

ACTION: Proposed rule.

SUMMARY: This document contains a proposed rule under the Employee Retirement Income Security Act (ERISA) that, upon adoption, would protect beneficiaries of pension plans and individual retirement accounts by more broadly defining the circumstances under which a person is considered to be a “fiduciary” by reason of giving investment advice to an employee benefit plan or a plan’s participants. The proposal amends a thirty-five year old rule that may inappropriately limit the types of investment advice relationships that give rise to fiduciary duties on the part of the investment advisor. The proposed rule takes account of significant changes in both the financial industry and the expectations of plan officials and participants who receive investment advice; it is designed to protect participants from conflicts of interest and self-dealing by giving a broader and clearer understanding of when persons providing such advice are subject to ERISA’s fiduciary standards. For example, the proposed rule would define certain advisers as fiduciaries even if they do not provide advice on a “regular basis.” Upon adoption, the proposed rule would affect sponsors, fiduciaries, participants, and beneficiaries of pension plans and individual retirement accounts, as well as providers of investment and investment advice related services to such plans and accounts.

DATES: Written comments on the proposed regulations should be submitted to the Department of Labor on or before [ENTER DATE THAT IS 90 DAYS AFTER PUBLICATION OF PROPOSED RULE].

FOR FURTHER INFORMATION CONTACT: Fred Wong, Office of Regulations and Interpretations, Employee Benefits Security Administration (EBSA), (202) 693-8500. This is not a toll-free number.

ADDRESSES: To facilitate the receipt and processing of comment letters, the EBSA encourages interested persons to submit their comments electronically by e-mail to e-ORI@dol.gov (enter into subject line: Definition of Fiduciary Proposed Rule) or by using the Federal eRulemaking portal at <http://www.regulations.gov>. Persons submitting comments electronically are encouraged not to submit paper copies. Persons interested in submitting paper copies should send or deliver their comments to the Office of Regulations and Interpretations, Employee Benefits Security Administration, Attn: Definition of Fiduciary Proposed Rule, Room N-5655, U.S. Department of Labor, 200 Constitution Avenue, NW, Washington, DC 20210. All comments will be available to the public, without charge, online at <http://www.regulations.gov> and <http://www.dol.gov/ebsa> and at the Public Disclosure Room, N-1513, Employee Benefits Security Administration, U.S. Department of Labor, 200 Constitution Avenue, NW, Washington, DC 20210.

SUPPLEMENTARY INFORMATION:

A. Background

The Employee Retirement Income Security Act of 1974 (ERISA) is a comprehensive statute designed to promote the interests of participants in employee benefit plans and their beneficiaries by establishing standards of conduct, responsibility, and obligation for fiduciaries

of those plans. ERISA imposes a number of stringent duties on those who act as plan fiduciaries, including a duty of undivided loyalty, a duty to act for the exclusive purposes of providing plan benefits and defraying reasonable expenses of administering the plan, and a stringent duty of care grounded in the prudent man standard from trust law.¹ Congress supplemented these general duties by categorically barring, subject to exemption, certain “prohibited” transactions.² Fiduciaries are personally liable for losses sustained by a plan that result from a violation of these rules.³

Section 3(21)(A) of ERISA provides in relevant part that a person is a fiduciary with respect to a plan to the extent (i) it exercises any discretionary authority or discretionary control with respect to management of such plan or exercises any authority or control with respect to management or disposition of its assets, (ii) it renders investment advice for a fee or other compensation, direct or indirect, with respect to any moneys or other property of such plan, or has any authority or responsibility to do so, or (iii) it has any discretionary authority or discretionary responsibility in the administration of such plan.⁴ On its face, section 3(21)(A)(ii) sets out a simple two-part test for determining fiduciary status: a person renders investment advice with respect to any moneys or other property of a plan, or has any authority or responsibility to do so; and the person receives a fee or other compensation, direct or indirect, for doing so.

In 1975, shortly after ERISA was enacted, the Department issued a regulation, at 29 CFR 2510.3-21(c), that defines the circumstances under which a person renders “investment advice”

¹ ERISA section 404(a).

² ERISA section 406.

³ ERISA section 409.

⁴ Section 4975(e)(3) of the Internal Revenue Code of 1986, as amended (Code) provides a similar definition of the term fiduciary for purposes of Code section 4975.

to an employee benefit plan within the meaning of section 3(21)(A)(ii) of ERISA.⁵ A person who renders “investment advice” under the regulation, and receives a fee or other compensation, direct or indirect, for doing so, is a fiduciary under section 3(21)(A)(ii). The current regulation provides in relevant part as follows:

(c) *Investment advice.* (1) A person shall be deemed to be rendering “investment advice” to an employee benefit plan, within the meaning of section 3(21)(A)(ii) of the Employee Retirement Income Security Act of 1974 (the Act) and this paragraph, only if:

(i) Such person renders advice to the plan as to the value of securities or other property, or makes recommendation as to the advisability of investing in, purchasing, or selling securities or other property; and

(ii) Such person either directly or indirectly (e.g., through or together with any affiliate)--

(A) Has discretionary authority or control, whether or not pursuant to agreement, arrangement or understanding, with respect to purchasing or selling securities or other property for the plan; or

(B) Renders any advice described in paragraph (c)(1)(i) of this section on a regular basis to the plan pursuant to a mutual agreement, arrangement or understanding, written or otherwise, between such person and the plan or a fiduciary with respect to the plan, that such services will serve as a primary basis for investment decisions with respect to plan assets, and that such person will render individualized investment advice to the plan based on the particular needs of the plan regarding such matters as, among other things, investment policies or strategy, overall portfolio composition, or diversification of plan investments.

The regulation significantly narrows the plain language of section 3(21)(A)(ii), creating a 5-part test that must be satisfied in order for a person to be treated as a fiduciary by reason of rendering investment advice. For advice to constitute “investment advice,” an adviser who does not have discretionary authority or control with respect to the purchase or sale of securities or other property for the plan must –

⁵ 40 FR 50842 (Oct. 31, 1975). The Department of Treasury issued a virtually identical regulation, at 26 CFR 54.4975-9(c), that interprets Code section 4975(e)(3). 40 FR 50840 (Oct. 31, 1975). Under section 102 of Reorganization Plan No. 4 of 1978, 5 U.S.C. App. 1 (1996), the authority of the Secretary of the Treasury to interpret section 4975 of the Code has been transferred, with certain exceptions not here relevant, to the Secretary of Labor. References in this document to sections of ERISA should be read to refer also to the corresponding sections of the Code.

(1) render advice as to the value of securities or other property, or make recommendations as to the advisability of investing in, purchasing or selling securities or other property

(2) on a regular basis

(3) pursuant to a mutual agreement, arrangement or understanding, with the plan or a plan fiduciary, that

(4) the advice will serve as a primary basis for investment decisions with respect to plan assets, and that

(5) the advice will be individualized based on the particular needs of the plan.

The Department further limited the term “investment advice” in a 1976 advisory opinion. Under the facts described therein, the Department concluded that a valuation of closely-held employer securities that an employee stock ownership plan (ESOP) would rely on in purchasing the securities would not constitute investment advice under the regulation.⁶

The current regulation has not been updated since its promulgation in 1975. Since that time, however, the retirement plan community has changed significantly, with a shift from defined benefit (DB) plans to defined contribution (DC) plans. The financial marketplace also has changed significantly, and the types and complexity of investment products and services available to plans have increased. With the resulting changes in plan investment practices, and relationships between advisers and their plan clients, the Department believes there is a need to re-examine the types of advisory relationships that should give rise to fiduciary duties on the part of those providing advisory services. In this regard, we note that recent Department enforcement initiatives indicate there are a variety of circumstances, outside those described in the current regulation, under which plan fiduciaries seek out impartial assistance and expertise of persons

⁶ Advisory Opinion 76-65A (June 7, 1976) (AO 76-65A).

such as consultants, advisers and appraisers to advise them on investment-related matters.⁷ These persons significantly influence the decisions of plan fiduciaries, and have a considerable impact on plan investments. However, if these advisers are not fiduciaries under ERISA, they may operate with conflicts of interest that they need not disclose to the plan fiduciaries who expect impartiality and often must rely on their expertise, and have limited liability under ERISA for the advice they provide. Recent testimony by the Government Accountability Office noted an association between pension consultants with undisclosed conflicts of interest and lower returns for their client plans.⁸ The Department believes that amending the current regulation to establish additional circumstances where investment advice providers are subject to ERISA's fiduciary responsibilities would better protect the interests of plans and their participants and beneficiaries. As a consequence of the current regulation, the Department's investigations of investment advisers must focus on establishing each of the elements of the 5-part test rather than on the precise misconduct at issue in particular cases. Even if an adviser advises a plan about its investments for a fee, the plan relied upon the advice based upon reasonable belief that it was impartial, and the advice was wholly abusive, the Department must still prove each of the test's five elements in order to assert a fiduciary breach. The Department does not believe that this approach to fiduciary status is compelled by the statutory language. Nor does the Department believe the current framework represents the most effective means of distinguishing persons who should be held accountable as fiduciaries from those who should not. For these reasons, the Department believes it is appropriate to update the "investment advice" definition to better

⁷ The Department's Employee Benefits Security Administration (EBSA) maintains a national enforcement project designed to identify and correct violations of ERISA in connection with Employee Stock Ownership Plans. One of the most common violations found is the incorrect valuation of employer securities. Another project, the Consultant / Adviser project (CAP) focuses on ERISA violations that may occur in connection with the receipt of improper, undisclosed compensation by pension consultants and other investment advisers. Information on the EBSA's national enforcement projects can be found at http://www.dol.gov/ebsa/erisa_enforcement.html.

⁸ *Conflicts of Interest Can Affect Defined Benefit and Defined Contribution Plans*, GAO 09-503T (Mar. 24, 2009).

ensure that persons, in fact, providing investment advice to plan fiduciaries and/or plan participants and beneficiaries are subject to ERISA's standards of fiduciary conduct.

B. Overview of Proposal

1. Proposed Amendment to Regulation Under ERISA Section 3(21)(A)(ii)

In general, the proposal amends paragraph (c) of Sec. 2510.3-21 by striking the current paragraph (c)(1), redesignating the current paragraph (c)(2) as paragraph (c)(5), and adding new paragraphs (c)(1) through (c)(4). New paragraph (c)(1) sets out the general rule that a person renders "investment advice" for a fee or other compensation, direct or indirect, to an employee benefit plan, within the meaning of section 3(21)(A)(ii) of ERISA and the regulation, if the person provides advice or makes recommendations described in paragraph (c)(1)(i), directly or indirectly meets any of the conditions described in paragraph (c)(1)(ii), and receives a fee or other compensation, direct or indirect, for providing such advice or recommendations. New paragraph (c)(2) sets forth certain limitations in the application of paragraph (c). New paragraph (c)(3) provides guidance with respect to the meaning of the term "fee or other compensation, direct or indirect," as used in section 3(21)(A)(ii) of ERISA. New paragraph (c)(4) clarifies the proposed amendment would apply for purposes of Code section 4975.

a. Description of Advice

Under paragraph (c)(1)(i)(A) of the proposal, the types of advice and recommendations that may result in fiduciary status under ERISA section 3(21)(A)(ii) are: advice, appraisals or fairness opinions concerning the value of securities or other property; recommendations as to the advisability of investing in, purchasing, holding, or selling securities or other property; or advice or recommendations as to the management of securities or other property.

This provision encompasses the same types of investment-related advice and recommendations as covered by paragraph (c)(1)(i) of the current regulation, except for the following modifications. First, the proposal specifically includes the provision of appraisals and fairness opinions. As discussed above, the Department concluded in AO 76-65A that a valuation of closely held employer securities that would be relied on in the purchase of the securities by an ESOP would not constitute investment advice under the current regulation. However, a common problem identified in the Department's recent ESOP national enforcement project involves the incorrect valuation of employer securities.⁹ Among these are cases where plan fiduciaries have reasonably relied on faulty valuations prepared by professional appraisers. The Department believes that application of the proposal to appraisals and fairness opinions rendered in connection with plan transactions may directly or indirectly address these issues, and align the duties of persons who provide these opinions with those of fiduciaries who rely on them. Accordingly, paragraph (c)(1)(i)(A)(1) of the proposal specifically includes the provision of appraisals and fairness opinions concerning the value of securities or other property. This paragraph is intended to supersede the Department's conclusion in AO 76-65A, but is not limited to employer securities. Therefore, if a person is retained by a plan fiduciary to appraise real estate being offered to the plan for purchase, then the provision of the appraisal would fall within paragraph (c)(1)(i)(A)(1) of the proposal, and may result in fiduciary status under ERISA section 3(21)(A)(ii). The Department would expect a fiduciary appraiser's determination of value to be unbiased, fair, and objective, and to be made in good faith and based on a prudent investigation under the prevailing circumstances then known to the appraiser.

Second, the proposal at paragraph (c)(1)(i)(A)(3) makes specific reference to advice and recommendations as to the *management* of securities or other property. This would include, for

⁹ See footnote 7.

instance, advice and recommendations as to the exercise of rights appurtenant to shares of stock (e.g., voting proxies),¹⁰ and as to the selection of persons to manage plan investments.

Finally, the proposal at paragraph (c)(1)(i)(B) makes clear that fiduciary status under section 3(21)(A)(ii) may result from the provision of advice or recommendations not only to a plan fiduciary, but also to a plan participant or beneficiary. This reflects the Department's long-standing interpretation of the current regulation.¹¹ The Department notes that it also has taken the position that, as a general matter, a recommendation to a plan participant to take an otherwise permissible plan distribution does not constitute investment advice within the meaning of the current regulation, even when that advice is combined with a recommendation as to how the distribution should be invested.¹² Concerns have been expressed that, as a result of this position, plan participants may not be adequately protected from advisers who provide distribution recommendations that subordinate participants' interests to the advisers' own interests. The Department, therefore, is requesting comment on whether and to what extent the final regulation should define the provision of investment advice to encompass recommendations related to taking a plan distribution. The Department is specifically interested in information on other laws that apply to the provision of these types of recommendations, whether and how those laws safeguard the interests of plan participants, and the costs and benefits associated with extending the regulation to these types of recommendations.

b. Conditions

Paragraph (c)(1)(ii) of the proposal sets forth alternative conditions, at paragraphs (c)(1)(ii)(A) through (D), at least one of which must be met by a person rendering advice

¹⁰ The fiduciary act of managing plan assets that are shares of corporate stock include the management of voting rights appurtenant to those shares of stock. 29 CFR 2509.08-2.

¹¹ See 29 CFR 2509.96-1(c).

¹² Advisory Opinion 2005-23A (Dec. 7, 2005).

described in paragraph (c)(1)(i) in order for the person to be considered rendering investment advice under the proposal. The conditions may be met by the person acting directly or indirectly, such as through or together with an affiliate. These alternative conditions generally relate to the degree of authority, control, responsibility or influence that is possessed, directly or indirectly, by the person rendering the advice, and the reasonable expectations of the persons receiving the advice. The conditions at paragraphs (c)(1)(ii)(B) and (D) of the proposal are based on paragraphs (c)(1)(ii)(A) and (B) of the current regulation (which include elements of the 5-part test described above), but with modifications to simplify their application and broaden their scope. The conditions at paragraphs (c)(1)(ii)(A) and (C) are new, and are intended to broaden the scope of the regulation based on readily-ascertainable criteria.

Paragraph (c)(1)(ii)(A) of the proposal includes persons providing advice or recommendations described in paragraph (c)(1)(i) that represent or acknowledge that they are acting as a fiduciary within the meaning of ERISA with respect to such advice or recommendations. The Department believes that explicitly claiming ERISA fiduciary status, orally or in writing, enhances the adviser's influence, and gives the advice recipient a reasonable expectation that the advice will be impartial and prudent. Therefore such a representation or acknowledgment in connection with provision of the advice or recommendations described in paragraph (c)(1)(i) is sufficient under the proposal to result in fiduciary status under section 3(21)(A)(ii) if provided for a fee or other compensation, direct or indirect.

Paragraph (c)(1)(ii)(B) of the proposal includes persons providing the types of investment-related advice or recommendations described in paragraph (c)(1)(i) that are fiduciaries with respect to the plan within the meaning of section 3(21)(A)(i) or (iii) of ERISA. This provision is based on the condition in paragraph (c)(1)(ii)(A) of the current regulation,

which is met if the person rendering advice directly or indirectly has discretionary authority or control with respect to purchasing or selling securities or other property for the plan. However, the proposal broadens the scope of this condition by referencing a person who is a fiduciary within the meaning of section 3(21)(A)(i) or (iii) of ERISA, which is not limited to persons with authority or control relating to purchases or sales of investments for a plan. Specifically, section 3(21)(A)(i) and (iii) describe any person who exercises any discretionary authority or discretionary control with respect to management of the plan, exercises any authority or control with respect to management or disposition of its assets, or has any discretionary authority or discretionary responsibility in the administration of the plan.

Paragraph (c)(1)(ii)(C) includes persons providing advice or recommendations described in paragraph (c)(1)(i) that are investment advisers within the meaning of section 202(a)(11) of the Investment Advisers Act of 1940 (Advisers Act), 15 U.S.C. 80b-2(a)(11). This section generally defines an “investment adviser” as any person who, for compensation, engages in the business of advising others as to the value of securities or the advisability of investing in, purchasing, or selling securities, or who promulgates analyses or reports concerning securities. However, section 202(a)(11) specifically excludes the following: (1) a bank, or any bank holding company as defined in the Bank Holding Company Act of 1956, which is not an investment company, except that the term “investment adviser” includes any bank or bank holding company to the extent that such bank or bank holding company serves or acts as an investment adviser to a registered investment company, but if such services or actions are performed through a separately identifiable department or division of a bank, the department or division, and not the bank itself, is deemed to be the investment adviser; (2) any lawyer, accountant, engineer, or teacher whose performance of such services is solely incidental to the

practice of his or her profession; (3) any broker or dealer whose performance of such services is solely incidental to the conduct of his business as a broker or dealer and who receives no special compensation therefor; (4) the publisher of any bona fide newspaper, news magazine or business or financial publication of general and regular circulation; (5) any person whose advice, analyses, or reports relate to no securities other than securities which are direct obligations of or obligations guaranteed as to principal or interest by the United States, or securities issued or guaranteed by corporations in which the United States has a direct or indirect interest which shall have been designated by the Secretary of the Treasury, pursuant to section 3(a)(12) of the Securities Exchange Act of 1934, as exempted securities for the purposes of that Act; (6) any nationally recognized statistical rating organization, as that term is defined in section 3(a)(62) of the Securities Exchange Act of 1934, unless such organization engages in issuing recommendations as to purchasing, selling, or holding securities or in managing assets, consisting in whole or in part of securities, on behalf of others; or (7) such other persons designated by the Securities and Exchange Commission (SEC) by rules, regulations or orders.¹³ Courts have determined that these investment advisers owe fiduciary duties to their clients under the Advisers Act.¹⁴ In this regard, the SEC has stated: “the Investment Advisers Act imposes on investment advisers an affirmative duty to their clients of utmost good faith, full and fair disclosure of all material facts, and an obligation to employ reasonable care to avoid misleading their clients.”¹⁵ Thus, the Department proposes to include these persons under the regulation.

Paragraph (c)(1)(ii)(D) includes persons that provide advice or make recommendations described in paragraph (c)(1)(i) pursuant to an agreement, arrangement or understanding, written or otherwise, between such person(s) and the plan, a plan fiduciary, or a plan participant or

¹³ See Advisers Act section 202(a)(11)(A)-(G), 15 U.S.C. 80b-2(a)(11)(A)-(G).

¹⁴ SEC v. Capital Gains Research Bureau, Inc., 375 U.S. 180 (1963).

¹⁵ SEC Advisers Act Rel. No. 1393 (Nov. 29, 1993).

beneficiary, that such advice may be considered in connection with making investment or management decisions with respect to plan assets, and will be individualized to the needs of the plan, a plan fiduciary, or a participant or beneficiary.

Paragraph (c)(1)(ii)(D) of the proposal is based on the elements of the 5-part test contained in paragraph (c)(1)(ii)(B) of the current regulation which, as described above, requires that a person render advice on a regular basis to the plan pursuant to a mutual agreement, arrangement or understanding, written or otherwise, between such person and the plan or a fiduciary with respect to the plan, that such services will serve as a primary basis for investment decisions with respect to plan assets, and that such person will render individualized investment advice to the plan based on the particular needs of the plan regarding such matters as, among other things, investment policies or strategy, overall portfolio composition, or diversification of plan investments. The Department notes several differences between the proposal and current paragraph (c)(1)(ii)(B). The proposal does not require the advice to be provided on a *regular basis*. The Department has observed that in those instances where a plan fiduciary retains a service provider such as a consultant or appraiser to render advice, it often involves discrete advice with respect to distinct investment transactions, such as a purchase of employer securities. The Department does not believe that the significance of the advice on a plan fiduciary's decisions diminishes merely because it is rendered only once, rather than on a *regular basis*, or that fiduciary status under section 3(21)(A)(ii) should depend on such a distinction. For example, a fiduciary may retain a person to provide advice on a particular real estate investment in the plan's portfolio, and never have a reason to use this adviser again. Nevertheless, such advice may be critical to an important investment decision and the plan's agreement with the adviser may give the plan every expectation that the adviser is competent and has no conflicts of

interest. The Department also believes that removal of the *regular basis* requirement will help address uncertainty under the current regulation by eliminating difficult factual questions relating to what constitutes a *regular basis*, and when it begins and ends, and by making clear that fiduciary status applies to each instance advice is rendered.

The proposal also does not require that the parties have a *mutual* understanding that the advice will serve as a *primary basis* for plan investment decisions. Nothing in ERISA compels conditioning fiduciary status on a requirement that an adviser and plan fiduciary have a mutual understanding as to the primacy of the advice given, in relation to other advice or information that the fiduciary may consider in making a decision. The Department believes that when a service provider is retained to render advice, the plan should generally be able to rely on the advice without regard to whether the parties intend it be a primary or lesser basis in the fiduciary's decision-making. For example, in a complex investment decision, a plan fiduciary may need to consult advisers with different areas of investment expertise in order to make a prudent decision. The relative importance of the different kinds of advice that the plan fiduciary obtains may be impossible to discern, and should not affect the question of whether the adviser is a fiduciary. Accordingly, under the proposal it is sufficient if the understanding of the parties is that the advice will be considered in connection with making a decision relating to plan assets. The Department also believes this modification will simplify this condition by eliminating difficult factual issues surrounding the primacy of the advice rendered. Other changes are editorial in nature and intended to improve the readability of the provision.

It is important to note generally that paragraphs (c)(1)(ii)(A), (B), (C) and (D) are independent, alternative conditions. Satisfaction of any one of these alternative conditions may result in fiduciary investment advice under the proposal if paragraph (c)(1)(i) also is satisfied.

For example, a bank or a broker dealer that provides investment advice or recommendations described in paragraph (c)(1)(i) might fall within an exclusion from the definition of “investment adviser” in section 202(a)(11) of the Advisers Act, and therefore might not meet paragraph (c)(1)(ii)(C) of the proposal. Notwithstanding this exclusion, if the bank or broker dealer meets the requirements of paragraphs (c)(1)(ii)(A), (B) or (D), it would nevertheless be considered to render investment advice under the proposal.

c. Limitations

Paragraphs (c)(2) of the proposal sets forth certain limitations with respect to the application of paragraph (c)(1).

Paragraph (c)(2)(i) provides that a person shall not be considered to be a person described in paragraph (c)(1) with respect to the provision of advice or recommendations if, with respect to a person other than a person described in paragraph (c)(1)(ii)(A), such person can demonstrate that the recipient of the advice knows or, under the circumstances, reasonably should know, that the person is providing the advice or making the recommendation in its capacity as a purchaser or seller of a security or other property, or as an agent of, or appraiser for, such a purchaser or seller, whose interests are adverse to the interests of the plan or its participants or beneficiaries, and that the person is not undertaking to provide impartial investment advice. This provision reflects the Department’s understanding that, in the context of selling investments to a purchaser, a seller’s communications with the purchaser may involve advice or recommendations, within paragraph (c)(1)(i) of the proposal, concerning the investments offered. The Department has determined that such communications ordinarily should not result in fiduciary status under the proposal if the purchaser knows of the person’s status as a seller whose interests are adverse to those of the purchaser, and that the person is not undertaking to provide impartial investment

advice. However, the Department believes there is an inherent expectation of impartial investment advice from a person described in paragraph (c)(1)(ii)(A) (involving representations or acknowledgment of ERISA fiduciary status with respect to providing advice or recommendations). Accordingly, paragraph (c)(2)(i) does not apply to such a person.

As an example, if a person selling securities to a plan is a fiduciary of the plan under section 3(21)(A)(i) or (iii) of ERISA (and therefore in paragraph (c)(1)(ii)(B) of the proposal),¹⁶ or is an investment adviser as defined in the Advisers Act (and therefore in paragraph (c)(1)(ii)(C) of the proposal),¹⁷ then the person may seek to utilize paragraph (c)(2)(i) to avoid fiduciary status under the proposal in connection with the sale. However, if the person also makes a representation of ERISA fiduciary status in connection with the sale, orally or in writing, then paragraph (c)(2)(i) would not be available. The Department intends that a person seeking to avoid fiduciary status under the proposal by reason of the application of paragraph (c)(2)(i) must demonstrate compliance with all applicable requirements of the limitation.

Paragraph (c)(2)(ii) describes certain activities taken in connection with individual account plans that will not, in and of themselves, be treated as rendering investment advice for purposes of ERISA section 3(21)(A)(ii). Paragraph (c)(2)(ii)(A) clarifies that the provision of investment education information and materials described in 29 CFR 2509.96-1(d) will not constitute the rendering of investment advice under section 3(21)(A)(ii) of ERISA. In 29 CFR 2509.96-1(d), the Department identified four specific categories of information and materials which, if furnished, alone or on combination, to plan participants or beneficiaries would not result in the rendering of investment advice under the current regulation. The Department

¹⁶ The Department notes that, because such a fiduciary would be a party in interest to the plan under section 3(14)(A) of ERISA, such a transaction would be prohibited by section 406(a) of ERISA unless exempt pursuant to an available statutory or administrative prohibited transaction exemption.

¹⁷ The Department is not addressing any issues under the Advisers Act related to such a transaction.

reasoned that these categories of information and materials – plan information, general financial and investment information, asset allocation models, and interactive materials – would not involve advice or recommendations within the meaning of paragraph (c)(1)(i) of the current regulation.¹⁸ The proposed modifications to the advice and recommendations described in paragraph (c)(1)(i) would not change this conclusion. This is reflected in paragraph (c)(2)(ii)(A). The Department notes that the information and materials described in 29 CFR 2509.96-1(d) merely represent examples of the type of information and materials that may be furnished to a participant or beneficiary without being considered the rendering of investment advice under the proposal.

Paragraphs (c)(2)(ii)(B) and (c)(2)(ii)(C) address certain common practices that have developed with the growth of participant-directed DC plans. Service providers such as recordkeepers and third party administrators sometimes make available a menu of investments from which a plan fiduciary selects a more limited menu that will be available under the plan for participant or beneficiary investment. The provider may simply offer a “platform” of investments from which the plan fiduciary selects those appropriate for the plan, or the provider may select, or assist the plan fiduciary in selecting the investments that will be available under the plan. The service provider also sometimes retains the ability to later make changes to the plan’s investment menu, subject to advance approval by the plan fiduciary. In some instances, the provider and the plan fiduciary clearly understand that the provider is offering investments as to which the provider has financial or other relationships, and is not purporting to provide impartial investment advice regarding construction of the plan’s investment menu. In other instances, the plan fiduciary is relying on the provider’s impartial expertise in selecting an investment menu for the plan. Also, to assist in the plan fiduciary’s selection or monitoring of

¹⁸ See generally 29 CFR 2509.96-1(d).

investments from those made available, such a service provider also might provide to the fiduciary general financial information and data regarding matters such as historic performance of asset classes and of the investments available through the provider.

To help address any uncertainty as to how these arrangements are treated under the proposal, the Department is clarifying at paragraph (c)(2)(ii)(B) that, with respect to an individual account plan, the marketing or making available (e.g., through a platform or similar mechanism), without regard to the individualized needs of the plan, its participants, or beneficiaries, securities or other property from which a plan fiduciary may designate investment alternatives into which plan participants or beneficiaries may direct the investment of assets held in, or contributed to, their individual accounts, will not, by itself, be treated as the rendering of investment advice within the meaning of section 3(21)(A)(ii) of ERISA if the person making available such investments discloses in writing to the plan fiduciary that the person is not undertaking to provide impartial investment advice.¹⁹ Paragraph (c)(2)(ii)(C) of the proposal further clarifies that, in connection with the activities described in paragraph (c)(2)(ii)(B), the provision of certain information and data to assist a plan fiduciary's selection or monitoring of such plan investment alternatives will not be treated as rendering investment advice if the person providing such information or data discloses in writing to the plan fiduciary that the person is not undertaking to provide impartial investment advice.

The Department recognizes that compliance with a number of ERISA's reporting and disclosure provisions requires information on the value of plan assets. The Department does not intend, as a general matter, for such information provided solely for compliance purposes to fall

¹⁹ The Department notes, however, that such a service provider's substitution or deletion of investment options selected by a plan fiduciary may, depending on the surrounding facts and circumstances, constitute an exercise of "authority or control respecting management or disposition of [a plan's] assets" within the meaning of section 3(21)(A)(i) of ERISA. See Advisory Opinion 97-16A (May 22, 1997).

within the type of advice described under that proposal. Paragraph (c)(2)(iii) provides that advice described in paragraph (c)(1)(i)(A)(L) does not encompass the preparation of a general report or statement that merely reflects the value of an investment of a plan or a participant or beneficiary, provided for purposes of compliance with the reporting and disclosure requirements of the Act, the Internal Revenue Code, and the regulations, forms and schedules issued thereunder, unless such report involves assets for which there is not a generally recognized market and serves as a basis on which a plan may make distributions to plan participants and beneficiaries.

d. Fee Requirement

A necessary element of fiduciary status under section 3(21)(A)(ii) of ERISA is that a person must render investment advice for a fee or other compensation, direct or indirect. Paragraph (c)(3) provides that purposes of section 3(21)(A)(ii), a fee or other compensation, direct or indirect, received by a person for rendering investment means any fee or compensation for the advice received by the person (or by an affiliate) from any source and any fee or compensation incident to the transaction in which the investment advice has been rendered or will be rendered. For example, the term fee or compensation includes, but is not limited to, brokerage, mutual fund sales, and insurance sales commissions. It includes fees and commissions based on multiple transactions involving different parties.

e. Application Under Code Section 4975

Code section 4975(e)(3) contains a provision that is parallel to ERISA section 3(21)(A)(ii) and defines the term “fiduciary” for purposes of the prohibited transaction excise tax provisions in Code section 4975. In 1975, the Department of the Treasury issued a regulation under Code section 4975(e)(3), found at 26 CFR 54.4975-9(c), that parallels 29 CFR 2510.3-

21(c). Under section 102 of Reorganization Plan No. 4 of 1978, 5 U.S.C. App. 1 (1996), the authority of the Secretary of the Treasury to interpret section 4975 of the Code has been transferred, with certain exceptions not here relevant, to the Secretary of Labor. Paragraph (c)(4) clarifies that the proposed amendments to the definition of the term “fiduciary” in 29 CFR 2510.3-21(c) also apply for purposes of the application of Code section 4975 with respect to any plan described in Code section 4975(e)(1), regardless of whether such plan is an employee benefit plan.

C. Effective Date

The Department proposes that the regulations contained in this document will be effective 180 days after publication of the final regulations in the **Federal Register**. The Department invites comments on whether the final regulations should be made effective on a different date.

D. Request for Comment

The Department invites comments from interested persons on the proposed rule. To facilitate the receipt and processing of comment letters, the EBSA encourages interested persons to submit their comments electronically by e-mail to e-ORI@dol.gov (enter into subject line: Definition of Fiduciary Proposed Rule) or by using the Federal eRulemaking portal at <http://www.regulations.gov>. Persons submitting comments electronically are encouraged not to submit paper copies. Persons interested in submitting paper copies should send or deliver their comments to the Office of Regulations and Interpretations, Employee Benefits Security Administration, Attn: Definition of Fiduciary Proposed Rule, Room N-5655, U.S. Department of Labor, 200 Constitution Avenue, NW, Washington, DC 20210. All comments will be available to the public, without charge, online at <http://www.regulations.gov> and <http://www.dol.gov/ebsa>

and at the Public Disclosure Room, N-1513, Employee Benefits Security Administration, U.S. Department of Labor, 200 Constitution Avenue, NW, Washington, DC 20210.

The comment period for the proposed regulations will end 90 days after publication of the proposed rule in the **Federal Register**. The Department believes that this period of time will afford interested persons an adequate amount of time to analyze the proposal and submit comments. Written comments on the proposed rule should be submitted to the Department on or before [ENTER DATE THAT IS 90 DAYS AFTER PUBLICATION OF PROPOSED RULE].

E. Regulatory Impact Analysis

1. Executive Order 12866 Statement

Under Executive Order 12866 (58 FR 51735), the Department must determine whether a regulatory action is “significant” and therefore subject to review by the Office of Management and Budget (OMB). Section 3(f) of the Executive Order defines a “significant regulatory action” as an action that is likely to result in a rule (1) having an annual effect on the economy of \$100 million or more, or adversely and materially affecting a sector of the economy, productivity, competition, jobs, the environment, public health or safety, or State, local or tribal governments or communities (also referred to as “economically significant”); (2) creating a serious inconsistency or otherwise interfering with an action taken or planned by another agency; (3) materially altering the budgetary impacts of entitlement grants, user fees, or loan programs or the rights and obligations of recipients thereof; or (4) raising novel legal or policy issues arising out of legal mandates, the President's priorities, or the principles set forth in the Executive Order. OMB has determined that this rule is economically significant within the meaning of section 3(f)(1) of the Executive Order, because it is likely to have an effect on the economy of \$100 million in any one year. Accordingly, OMB has reviewed the rule pursuant to the Executive

Order. The Department performed a comprehensive, unified analysis to estimate the costs and, to the extent feasible, provide a qualitative assessment of benefits attributable to the proposed rule for purposes of compliance with Executive Order 12866 and the Regulatory Flexibility Act. The analysis is summarized in Table 1, below.

TABLE 1.--Accounting Table

Benefits				
Annualized Monetized (\$millions/year)	Not Quantified			
Qualitative: The proposed regulation's new definition of when a person is considered a "fiduciary" of a pension plan by reason of providing investment advice will discourage harmful conflicts of interest, improve service value, and enhance the Department's ability to redress abuses and more effectively and efficiently allocate its enforcement resources. The proposed regulation also should help plans by giving them a means to seek recoupment of losses and disgorgement of ill-gotten gains from those newly-considered fiduciaries who engage in misconduct. While most of the recoupment will be transfers, they are welfare improving, because they return money to plans that would not have been taken from them if the service provider had been acting in the best interest of the plan and its participants and beneficiaries as required by ERISA. Given the magnitude of plan assets that may be affected, even a small service value improvement by a moderate number of plans could yield economically significant benefits.				
Costs	Estimate	Year Dollar	Discount Rate	Period Covered
Annualized Monetized (\$millions/year) for service provider compliance review and implementation costs	2.1	2010	7%	2011-2020
Annualized Monetized (\$millions/year) for higher costs of doing business for service providers not previously covered by the fiduciary definition	1.9	2010	3%	2011-2020
Annualized Monetized (\$millions/year) for higher costs of doing business for service providers not previously covered by the fiduciary definition	Not Quantified			

Qualitative: An increased number of service providers could become fiduciaries to the plans to whom they provide services. These service providers could experience higher costs of doing business due to increased liability. To the extent costs and liabilities rise, the plan service provider market could become compressed if plan service providers leave the market. As more service providers become fiduciaries, more transactions could violate ERISA prohibited transaction rules. Absent applicable prohibited transaction exemptions, service providers would have to restructure transactions and /or modify business practices.

2. Background and Need for Regulatory Action

As stated earlier in this preamble, section 3(21)(A)(ii) of ERISA defines a fiduciary as a person that renders investment advice to a plan for a fee or other compensation, direct or indirect, with respect to any moneys or other property of such plan, or has any authority or responsibility to do so. In 1975, shortly after ERISA was enacted, the Department adopted a regulation²⁰ that significantly limited the broad statutory language. The current regulation provides that a person provides “investment advice” for purposes of section 3(21)(A)(ii) of ERISA only if it renders advice as to the purchase, sale, or value of securities or other property and either has discretionary authority or control with respect to the purchase of property for the plan, or, in the alternative, the person (1) renders advice as to the purchase, sale, or value of securities or other property, (2) on a regular basis, (3) pursuant to a mutual agreement, arrangement or understanding, written or otherwise, between such person and the plan or a plan fiduciary, that (4) the advice will serve as a primary basis for investment decisions with respect to plan assets, and that (5) the advice will be individualized based on the particular needs of the plan (hereinafter referred to as the “five-part test”).²¹ Under the current regulation, a plan service

²⁰ 29 CFR 2510.3-21(c).

²¹ The scope of the regulation was further limited by the Department in a 1976 advisory opinion (AO 76-65), in which it concluded that, under the facts described therein, a valuation of closely held employer securities that would be relied on in the purchase of the securities by an employee stock ownership plan (ESOP) would not constitute investment advice under the regulation.

provider must satisfy each element of the five-part test in order to be considered a fiduciary under ERISA section 3(21)(A)(ii) unless the service provider renders advice and has discretionary authority or control with respect to purchasing or selling securities or other property for the plan.

The current regulation has not been updated since it was promulgated in 1975. Since that time, the design and operation of employee benefit plans has changed significantly. One of the most dramatic changes has been the growth of defined contribution (DC) plans, specifically, 401(k) plans, which did not exist when the current regulation was promulgated. Department of Labor data show that from 1975 through 2007, the percentage of active participants covered by DC plans grew from 29% to 78% and 90% of these active DC plan participants were covered by 401(k) plans.²² Importantly, about 89% of 401(k) plans covering 95% of all active 401(k) plan participants are participant-directed, which means that participants make investment decisions regarding the investment of assets held in their individual accounts by choosing from a diverse menu of designated investment alternatives selected by plan sponsors.

In 2009, the Government Accountability Office (GAO) found that many opportunities exist in the 401(k) marketplace for plans to hire service providers that have business arrangements that could give rise to conflicts of interest.²³ For example, the GAO noted that plans often hire consultants and other advisers to provide advice regarding investment options and products that should be offered under the plan and to monitor the performance of the selected investments. In some cases, consultants receive compensation from the investment

²² See U.S. Department of Labor, Employee Benefits Security Administration, "Private Pension Plan Bulletin Historical Tables and Graphs," January 2010, p. 1. This document can be found at www.dol.gov/ebsa/pdf/1975-2007historicaltables.pdf. Please note that the number of active participants in 1975 and 2007 are not directly comparable because of adjustments in the definition of a participant. This adjustment is explained in detail in the historical tables and graphs.

²³ See, GAO, *Conflicts of Interest Can Affect Defined Benefit and Defined Contribution Plans*, GAO-09-503T, Testimony Before the Subcommittee on Health, Employment, Labor and Pensions, Education and Labor Committee, House of Representatives (March 24, 2009), accessible at <http://www.gao.gov/new.items/d09503t.pdf>.

companies whose products they recommend to the plan, which could lead them to steer the plans toward products for which they receive additional compensation. These arrangements can be harmful to plan participants, because the plan may pay excessive fees for the provided services, which could lower returns. Participants in participant-directed 401(k) plans are especially vulnerable in these situations, because they must rely on the assets in their individual accounts to meet their retirement income needs.

There also is a greater potential for conflicts of interest to exist in the defined benefit pension plan service provider market than when the current regulation was promulgated. Due to the increased complexity of investment opportunities available to defined benefit plans, plan sponsors often seek investment advice from a broad range of service providers. Some of these service providers have business arrangements that can give rise to conflicts of interest. For example, in a May 2005 study,²⁴ the Securities and Exchange Commission (SEC) staff found that 13 of the 24 pension consultants examined or their affiliates had undisclosed conflicts of interest, because they provided products and services to pension plan advisory clients, money managers, and mutual funds on an ongoing basis without adequately disclosing these conflicts. The SEC staff also found that the majority of examined pension consultants had business relationships with broker-dealers that raised a number of concerns about potential harm to pension plans.

The current regulation's narrow approach to fiduciary status sharply limits the Department's ability to protect plans and their participants and beneficiaries from conflicts of interest that may arise from the diverse and complex fee practices existing in today's retirement plan services market and to devise effective remedies for misconduct when it occurs. In recent

²⁴ See U.S. Securities and Exchange Commission, Office of Compliance Inspections and Examinations, Staff Report Concerning Examination of Select Pension Consultants (Washington, D.C.: May 16, 2005.). The report's findings were based on a 2002 to 2003 examination of 24 pension consultants. The report can be accessed at <http://www.sec.gov/news/studies/pensionexamstudy.pdf>.

years, non-fiduciary service providers -- such as consultants, appraisers, and other advisers -- have abused their relationships with plans by recommending investments in exchange for undisclosed kickbacks from investment providers, engaging in bid-rigging, misleading plan fiduciaries about the nature and risks associated with plans investments, and by giving biased,²⁵ incompetent, and unreliable valuation opinions. Yet, no matter how egregious the abuse, plan consultants and advisers have no fiduciary liability under ERISA, unless they meet every element of the five-part test.

In instances where a plan has relied upon abusive investment advice from a self-dealing consultant concerning an investment product on a single occasion, the Department would be unable to bring an action for fiduciary breach against the consultant, because the “regular basis” element of the current regulation’s five-part test would not be satisfied. The consultant would be absolved of liability regardless of the severity of the abuse or the extent of the plan’s reliance. This is true even if the consultant engaged in precisely the same conduct that would have been *per se* illegal if committed by an equally culpable consultant that met the current regulation’s “regular basis” test.

For example, a plan’s purchase of annuity contracts is a major transaction, but it may occur only in connection with the plan’s termination. As a result, the Department could not pursue a civil enforcement action against an insurance brokerage company for accepting kickbacks from an annuity carrier while advising plans for a fee regarding the selection of annuity contracts. Even where the brokerage company’s recommendation was the primary basis

²⁵ The GAO found that DB pension plans using consultants with SEC-identified undisclosed conflicts earned returns 130 basis points lower than the others, which implies that bias may taint consultants’ advice. See e.g., GAO, *Conflicts of Interest Involving High Risk of Terminated Plans Pose Enforcement Challenges*, Defined Benefit Pension Report (June 2007), at <http://www.gao.gov/new.items/d07703.pdf>.

for the plan's choice of annuity providers, the brokers could not be held accountable as fiduciaries because the advice would not have been offered on a regular basis.

Another anomaly associated with the current regulation is that the five-part test applies even to persons who represent themselves to the plan as fiduciaries in rendering investment advice. For example, a consultant could hold itself out as a plan fiduciary in a written contract with the plan, render investment advice for a fee, and still evade fiduciary status by showing that its advice was insufficiently "regular," did not serve as a "primary basis" for the decision, or otherwise failed to meet each element of the five-part test. The current test also makes it easy for consultants to structure their actions to avoid fiduciary status. The SEC found evidence of this practice in its pension consultants examination and made the following statement regarding this issue in its report: "Many pension consultants believe they have taken appropriate actions to insulate themselves from being considered a 'fiduciary' under ERISA. As a result, it appears that many consultants believe they do not have any fiduciary relationships with their advisory clients...."²⁶

An adviser's recommendation may involve significant sums and matters of specialized expertise, and it may include professions of impartiality. However, unless the advice meets each element of the current regulation's 5-part test, ERISA's remedies for lack of due diligence and disloyalty are unavailable to the plan.

In contrast, when a fiduciary uses its position of trust to enrich itself by engaging in self-dealing and subordinating the plans' interests to its own, it violates numerous provisions of ERISA, including its duty of loyalty provided in section 404 of ERISA and the prohibitions on

²⁶ See U.S. Securities and Exchange Commission, Office of Compliance Inspections and Examinations, Staff Report Concerning Examination of Select Pension Consultants, p. 6 (Washington, D.C.: May 16, 2005).

self-dealing provided in section 406(b) of ERISA. Such a fiduciary also exposes itself to the broadest possible range of remedies under ERISA.

Applying the current regulation in today's service provider market has had a detrimental impact on EBSA's allocation of its enforcement resources. EBSA seeks to focus its enforcement resources on areas that have the greatest impact on the protection of plan assets and participants' benefits. To accomplish this goal, EBSA requires its field offices to place particular emphasis on certain national enforcement projects. The determination of fiduciary status is particularly important to two national enforcement projects: the Employee Stock Ownership Plan (ESOP) Project and the Consultant/Adviser Project (CAP).

The ESOP project is designed to identify and correct violations of ERISA in connection with ESOPs, which are designed to invest primarily in employer securities. CAP focuses on the receipt of improper or undisclosed compensation by employee benefit plan consultants and other investment advisers. EBSA's investigations seek to determine whether the receipt of such compensation, even when disclosed, violates ERISA because the adviser/consultant leveraged its position with a benefit plan to generate additional fees for itself or its affiliates. When ERISA violations are uncovered, EBSA will seek corrective action for past violations as well as prospective relief to deter future violations.

One of the most critical elements in bringing enforcement actions under the ESOP and CAP initiatives is establishing that a service provider is a fiduciary. In order to make this determination, investigators must gather evidence to support a finding for each element of the five-part test. In all cases, the analysis necessary to determine fiduciary status is very fact-intensive and requires extensive review of plan documents and contracts, client files, emails, investment documentation, accounting records, and interview statements to be obtained from

service providers and their affiliates. Consequently, EBSA investigators routinely devote disproportionate time and resources establishing all elements of the five-part test, rather than focusing on the precise misconduct at issue in particular cases.

Based on the foregoing, the Department has determined that regulatory action is necessary to adopt a definition of the term “fiduciary” that more closely reflects the broad statutory definition of the term, recognizes the diverse and complex fee practices that exist in today’s service provider market and their potential conflicts, accounts for the shift from DB to DC plans, expands the scope of fiduciary protections for plans and their participants and beneficiaries, and permits EBSA investigators and attorneys to focus their efforts on the adviser’s conduct rather than meeting the evidentiary requirements necessary to prove that all elements of the current regulation’s five-part test are satisfied. As discussed in further detail below, the Department believes that amending the current regulation by broadening the scope of service providers that would be considered fiduciaries would enhance the Department’s ability to redress service provider abuses that currently exist in the market, such as undisclosed fees, misrepresentation of compensation arrangements, and biased appraisals of the value of employer securities and other plan investments.

4. Affected Entities

The Department used data from the Schedule C of the 2007 Form 5500, the latest available complete data, to estimate the universe of plan service providers that would be affected by the proposed rule. Generally, plans with 100 or more participants are required to report on Schedule C persons who rendered services to or who had transactions with the plan during the reporting year if the person received, directly or indirectly, \$5,000 or more in reportable compensation in connection with services rendered or their position with the plan. The type of

services provided by each service provider also must be reported. Based on the Schedule C service codes, the Department estimates that 5,300 unique service providers most likely provide investment- and valuation-related services covered under the proposed rule that could cause them to be considered fiduciaries. In order to provide a reasonable estimate, service providers reporting service codes corresponding to brokerage (real estate), brokerage (stocks, bonds, commodities), consulting (general), insurance agents and brokers, valuation services (appraisals, asset valuation, etc.) and investment evaluations were assumed to provide covered services. Note that the code for investment advisory services was omitted, because we assume that such service providers are ERISA fiduciaries.

The Department acknowledges that its estimate may be imprecise. Although some small plans file Schedule C, small plans generally are not required to complete Schedule C. Therefore, there would be an underestimate of covered services providers to small plans if a substantial number of the service providers only service small plans. The Department, however, believes that its estimated number of covered service providers is reasonable, because most small plans use the same service providers as large plans.²⁷ The Department invites comments regarding this estimate.

5. Benefits

The Department expects that amending its current regulation defining the circumstances under which a person is a fiduciary under ERISA as a result of providing investment advice will discourage harmful conflicts, improve service value, and enhance the Department's ability to redress abuses and more effectively and efficiently allocate its enforcement resources. Although

²⁷ While in general small plans are not required to file a Schedule C, some voluntarily file. Looking at Schedule C filings by small plans, the Department verified that most small plans reporting data on Schedule C used the same group of service providers as larger plans.

the Department is unable to quantify these benefits, the Department tentatively concludes they would justify their cost.

a. Discouraging Harmful Conflicts

Harmful arrangements generally are those that are tainted by unmitigated conflicts. These arrangements occur when a plan's service providers strike deals that profit one another at the plan's expense or subordinate the plan's interest to someone else's. As mentioned earlier, in a 2005 report,²⁸ SEC staff identified certain undisclosed arrangements in the business practices of pension consultants that can give rise to conflicts of interest. The SEC found that the objectivity of advice provided by the examined pension consultants was called into question, because many pension consultants provided services both to pension plans who are their clients and money managers. In the report, the SEC stated that this raises concerns that pension consultants may steer clients to certain money managers and other vendors based on the consultant's other business relationships and receipt of fees from these firms, rather than because selecting the money manager or other vendor was in the best interest of the plan and its participants and beneficiaries.

Also, as noted earlier in this Regulatory Impact Analysis, a recent GAO study links undisclosed conflicts with 130 basis points of underperformance in defined benefit pension plans.²⁹ A variety of academic studies further support the hypothesis that conflicts often erode

²⁸ See U.S. Securities and Exchange Commission, Office of Compliance Inspections and Examinations, Staff Report Concerning Examination of Select Pension Consultants, p .5 (Washington, D.C.: May 16, 2005).

²⁹ See, GAO, *Conflicts of Interest Can Affect Defined Benefit and Defined Contribution Plans*, GAO-09-503T, Testimony Before the Subcommittee on Health, Employment, Labor and Pensions, Education and Labor Committee, House of Representatives (March 24, 2009), accessible at <http://www.gao.gov/new.items/d09503t.pdf>.

the value provided to defined contribution pension plans by mutual funds and their distribution channels.³⁰

Beneficial arrangements generally are those in which a plan's service providers, in competition to provide the best value to the plan, deliver high quality services to the plan at the lowest cost, and act solely in the interest of their plan clients and the plan's participants and beneficiaries. According fiduciary status to certain service providers that provide investment advice and valuation services to plans and their participants, and subjecting them to the full extent of remedies under ERISA, would discourage harmful conflicts and create more beneficial arrangements in the pension plan service provider market by deterring service providers from engaging in self-dealing, acting imprudently, and subordinating their plan clients' interests to other interests due to the liability exposure and negative publicity that would result from being sued for a fiduciary breach under ERISA.

b. Improved Service Value

Under the proposal, certain service providers that are not fiduciaries under the Department's current regulation would be determined to be fiduciaries under ERISA. Based on this change, the Department expects that affected service providers will modify their business practices to ensure that they act solely in the interests of their employee benefit plan clients and the plans' participants and beneficiaries as required by section 404 of ERISA. Therefore, plans should receive better value for the service fees they pay. Advisers are more likely to act in accordance with ERISA's high fiduciary standards if they know that they may be held to them.

³⁰ Examples include: Daniel B. Bergstresser et al., *Assessing the Costs and Benefits of Brokers in the Mutual Fund Industry*, Social Science Research Network Abstract 616981 (Sept. 2007). Mercer Bullard et al., *Investor Timing and Fund Distribution Channels*, Social Science Research Network Abstract 1070545 (Dec. 2007). Xinge Zhao, *The Role of Brokers and Financial Advisors Behind Investment Into Load Funds*, China Europe International Business School Working Paper (Dec. 2005), at <http://www.ceibs.edu/faculty/zxinge/brokerrole-zhao.pdf>.

Where a plan suffers a loss because of an investment adviser's imprudence or actions contrary to the plan's interests, the plan will have remedies under ERISA to recoup its losses and disgorge the adviser's ill-gotten gains. This should provide the ancillary benefit of improved returns on plan assets and larger account balances for participants and beneficiaries of individual account plans.

While the improvement in service value that may result from the proposed rule is difficult to quantify, the Department believes that it has the potential to be very large. If just 10 percent of plans realize a one basis point (0.01 percent of plan assets) service value improvement, it would be worth approximately \$399 million over ten years using a seven percent discount rate and reporting in 2010 dollars. In addition, GAO's study linking undisclosed conflicts with 130 basis points of underperformance suggests that value can be improved via service quality as well as price.³¹ Viewed in this context, the Department is confident that service value improvement could be substantial as a result of the proposed rule and may be economically significant (i.e., exceed \$100 million annually).

c. Improve Department's Ability to Redress Abuse and Improve Enforcement
Resource Allocation

Amending the Department's current regulation by broadening the scope of service providers that would be considered fiduciaries would enhance the Department's ability to redress service provider abuses that currently exist in the market, such as undisclosed fees, misrepresentation of compensation arrangements, and biased appraisals of the value of employer

³¹ See, GAO, *Conflicts of Interest Can Affect Defined Benefit and Defined Contribution Plans*, GAO-09-503T, Testimony Before the Subcommittee on Health, Employment, Labor and Pensions, Education and Labor Committee, House of Representatives (March 24, 2009), accessible at <http://www.gao.gov/new.items/d09503t.pdf>.

securities and other plan investments.³² It also would allow the Department to more effectively and efficiently allocate its enforcement resources, which would directly benefit plans and their participants and beneficiaries by providing greater protections than are available under the current regulation.

Specifically, the proposed rule would improve the Department's ability to redress abuse, provide additional protection to plans and their participants and beneficiaries, and allocate its enforcement resources by:

- Including as fiduciary investment advice appraisals and fairness opinions concerning value of securities or other property;
- According fiduciary status to persons who render investment advice for a fee to a plan, its participants or beneficiaries and directly or indirectly represent or acknowledge that they are acting as a fiduciary within the meaning of ERISA in rendering the advice; and
- Expediting the resolution of difficult factual questions and enforcement challenges by removing the requirements in the current regulation's five-part test that investment advice must be provided on a regular basis based on the parties' mutual understanding and that the advice will serve as a primary basis for plan investment decisions.

These benefits are discussed in more detail below.

Appraisals and Valuation Opinions: As discussed earlier in this preamble, EBSA's national ESOP enforcement project is focused on identifying and correcting violations of ERISA in connection with ESOPs, which are designed to invest primarily in employer securities. A common violation found in the ESOP national enforcement project arises in cases where plan fiduciaries have reasonably relied on faulty valuations of securities prepared by professional

³² Please note that Department's proposal also would benefit participants and beneficiaries of ERISA-covered plans, because section 502(a)(2) of ERISA allows them to assert a private right of action against plan fiduciaries who breach any of the responsibilities, obligations, or duties imposed on fiduciaries under Title I of ERISA.

appraisers. The proposed rule, which would supersede AO 76-65A, and therefore would apply to appraisals and fairness opinions rendered in connection with plan investment transactions would align the duties of persons who provide appraisals with those of fiduciaries who rely on these appraisals. As noted above, the provision in the proposed rule is not limited to employer securities.

Persons Holding Themselves Out as Fiduciaries: The proposed rule provides that a person is a fiduciary if it (1) renders investment advice described in the proposal to a plan, plan fiduciary, or plan participant or beneficiary for a fee or other compensation and (2) directly or indirectly represents or acknowledges that it is acting as a fiduciary within the meaning of ERISA with respect to the plan in rendering the advice. Many pension plans rely heavily on the expert guidance provided by consultants and other advisers in managing the investment of plan assets. The Department believes that claiming ERISA fiduciary status enhances the adviser's influence, and gives the advice recipient a reasonable expectation that the advice will be impartial and prudent. Therefore, the proposed rule provides that such a representation or acknowledgment in connection with advice is sufficient to constitute investment advice under the proposal which, if rendered for a direct or indirect fee or other compensation, would result in fiduciary status under section 3(21)(A)(ii) of ERISA.

Simplifying Current Rule's Five-Part Test: As stated earlier in this preamble, EBSA's CAP project focuses on the receipt of improper, undisclosed compensation by pension consultants and other investment advisers, and whether the receipt of such compensation violates ERISA, because the adviser/consultant used its position with a benefit plan to generate additional fees for itself or its affiliates. One of the most substantial impediments confronting CAP investigators when bringing enforcement actions under the CAP program is proving that all

elements of the current rule's five-part test are met. As stated earlier, CAP investigators spend an inordinate amount of time gathering evidence to satisfy all elements of the five-part test rather than focusing on the misconduct involved in a particular case.

The proposed rule would remove this impediment by eliminating the requirement that advice must be provided on a "regular basis." This condition bears no necessary relationship to the importance of the advice to the plan or the culpability of the adviser. The proposal also does not require the parties to have a mutual understanding that the advice will serve as a "primary basis" for plan investment decisions. This should allow EBSA to more efficiently allocate its enforcement resources, because investigators no longer would need to devote disproportionate time to prove that these elements of the five-part test are met.

6. *Costs*

The Department estimated the costs for the proposal over the ten-year time frame for purposes of this analysis and used information from the quantitative characterization of the service provider market presented above as a basis for these cost estimates. This characterization did not account for all service providers, but it does provide information on the segments of the service provider industry that are likely to be most affected by the proposal (*i.e.*, those who provide investment- and valuation-related services to employee benefit plans).

Most of the cost of the rule would be imposed on affected plan service providers. These service providers would need to review the proposed rule and determine whether their current service provider contracts and arrangements with plans, or activities carried out pursuant to them, would make them fiduciaries under the proposal.

For purposes of this analysis, the Department assumes that all affected service providers will incur these initial compliance review costs. The Department believes that service providers

will need to review their entire book of business, not each individual transaction or a plan-by-plan review, to determine whether they are fiduciaries, because service providers will enter into agreements with plans to provide similar types of services. The Department assumes that affected service providers will require on average 16 hours of legal professional time at a cost of approximately \$119 per hour to perform the compliance review. Based on the foregoing, this cost is estimated to be approximately \$10.1 million in the first year.

The Department also has estimated the initial compliance review and implementation costs for service providers newly entering the market (“new service providers”) to provide services to plans (either for the first time or by re-entry) beginning in 2012 and each year thereafter. The Department assumes that about eight percent of all service providers will be new in each year subsequent to 2011,³³ and that these service providers will incur the same compliance review and implementation costs as existing service providers. Based on the foregoing, the Department estimates that new service providers will incur costs of approximately \$845,000 in 2012 and thereafter. Estimates of the cost of the rule over the first ten years are reported in Table 2, below.

The Department’s estimate regarding the time required for service providers to complete the compliance review to determine whether they are fiduciaries under the proposal as a result of providing investment advice to a plan or a plan participant or beneficiary is based on an average cost for large and small service providers to conduct the review. In developing this estimate, the Department has accounted for the fact that large service providers may require more time than small service providers to complete the compliance review due to the wide range of services they provide and the complexity of their business arrangements and affiliate relationships. The Department believes that the burden for service providers to complete the compliance review is

³³ Estimate based on the Department’s comparison of data reported on the 2005 and 2006 Form 5500.

mitigated by the fact that the proposal sets forth discrete types of advice and recommendations that constitute investment advice for purposes of ERISA section 3(21)(A)(ii). The Department welcomes public comments regarding this estimate.

TABLE 2 .--*Monetized Costs of Rule (2010 dollars)*

Year	Cost of Legal Review Undiscounted (A)	Total 3% Discounting	Total 7% Discounting
2011	\$10,138,000	\$10,138,000	\$10,138,000
2012	\$845,000	\$820,000	\$790,000
2013	\$845,000	\$796,000	\$738,000
2014	\$845,000	\$773,000	\$690,000
2015	\$845,000	\$751,000	\$644,000
2016	\$845,000	\$729,000	\$602,000
2017	\$845,000	\$708,000	\$563,000
2018	\$845,000	\$687,000	\$526,000
2019	\$845,000	\$667,000	\$492,000
2020	\$845,000	\$647,000	\$460,000
Total	\$17,741,000	\$16,715,000	\$15,642,000

Note: The displayed numbers are rounded to the nearest thousand and therefore may not add up to the totals.

7. Regulatory Alternatives

As discussed elsewhere in the preamble to the proposal, plan service providers that fall within the Department’s rule might experience increased costs and liability exposure associated with ERISA fiduciary status. Consequently, these service providers might charge higher fees to plan clients, or limit or discontinue the availability of their services or products to ERISA plans. As further discussed below, the Department considered but rejected two regulatory alternatives, because these alternatives could lead to higher fees for plans and a compression of the plan service provider market.

In developing this proposal, the Department sought to broaden the scope of the persons treated as ERISA fiduciaries, without creating an overly-broad or ambiguous standard that might

unnecessarily disadvantage plans. As an alternative, the Department considered a proposal that would replace the current regulatory definition with the language of section 3(21)(A)(ii) of ERISA, which provides simply that a person is a fiduciary if it renders investment advice for a fee or other compensation, direct or indirect, with respect to any moneys or other property of a plan, or has any authority or responsibility to do so. However, the Department believes this approach would not provide sufficient clarity for persons to determine whether they are ERISA fiduciaries. Without a sufficiently clear standard, a broad range of plan service providers, in order to mitigate or avoid any potential risks, might simply presume fiduciary status and charge higher fees to plan clients, or limit or discontinue the availability of their services or products to ERISA plans. The Department rejected this alternative. The Department's proposal attempts to identify fiduciaries based on readily-ascertainable criteria related to their degree of authority, control, responsibility or influence and the expectations of the parties involved.

The Department considered another alternative that would not have included in the proposal an explicit limitation applicable to service providers that offer of a "platform" of investment options. Defined contribution plans that permit participants to direct the investment of assets allocated to their accounts have become increasingly popular. Often, the service provider offering a platform, as an incidental part of its overall services, also provides the plan sponsor with general information and assistance in assessing the investments available for inclusion in the plan's platform. The Department rejected this alternative, because if the proposal does not provide sufficient clarity as to whether their activities related to offering an investment platform would result in fiduciary status, these service providers might increase their fees, limit the types of investment-related information made available to plan sponsors, or cease offering their services to plans. In order to provide clarity, the Department's proposal attempts

to describe the circumstances under which merely offering a platform of investment options, and certain incidental services, will not cause a person to become an ERISA fiduciary.

8. Uncertainty

The Department's estimates of the effects of this proposed rule are subject to uncertainty. The Department is confident that adopting a new definition of the term "fiduciary" should discourage harmful conflicts of interest, improve service value, and enhance the Department's ability to redress abuses and more effectively and efficiently allocate its enforcement resources. However, it is uncertain about the magnitude of these benefits and potential costs. It is possible this rule could have a large market impact.

For example, the Department is uncertain regarding whether, and to what extent, service provider costs would increase due to the proposed rule, and if so, whether the increased cost would be passed on to plans. The Department expects that more service providers would be determined to be fiduciaries under the proposed rule than under the current regulation. These service providers could experience higher costs of doing business due to the increased liability exposure that is associated with ERISA fiduciary status, such as fiduciary liability insurance costs, which could result in higher fees for their plan clients. The Department also is uncertain whether the service provider market will shrink because some service providers would view the increased costs and liability exposure associated with ERISA fiduciary status as outweighing the benefit of continuing to service the ERISA plan market. The Department does not have enough information to provide a specific number. However, it is possible that many plans currently employ service providers who would be considered fiduciaries for the first time under the proposal.

Also, if more service providers are fiduciaries, more transactions would violate the self-dealing prohibitions contained in ERISA section 406(b). In order to avoid committing prohibited transactions, affected service providers would have to identify transactions that would be prohibited because they involve self-dealing, restructure these transactions, and modify their business practices in the absence of an applicable statutory, class, or individual prohibited transaction exemption. The Department is uncertain regarding the number of transactions that would have to be restructured, whether an applicable prohibited transaction exemption would be available for such transactions, and if not, the number of prohibited transactions exemption applications the Department could expect to receive regarding the transactions. The Department welcomes public comments regarding this issue.

The Department believes its assumptions are reasonable based on the available information and tentatively concludes that the proposed regulation's benefits would justify its costs. The Department invites comments that will help it assess the impact of areas where it is uncertain.

9. Regulatory Flexibility Act

The Regulatory Flexibility Act (5 U.S.C. 601, et seq.) (RFA) imposes certain requirements with respect to Federal rules that are subject to the notice and comment requirements of section 553(b) of the Administrative Procedure Act (5 U.S.C. 551, et seq.) and which are likely to have a significant economic impact on a substantial number of small entities. Unless an agency determines that a proposal is not likely to have a significant economic impact on a substantial number of small entities, section 603 of the RFA requires the agency to present an initial regulatory flexibility analysis (IRFA) of the proposed rule. The Department's IRFA of the proposed rule is provided below.

a. *Need for and Objectives of the Rule*

The Department has determined that regulatory action is necessary to adopt a definition of the term “fiduciary” that more closely reflects the broad statutory definition of the term, recognizes the diverse and complex fee practices that exist in today’s plan service provider market and their potential conflicts, accounts for the shift from DB to DC plans, expands the scope of fiduciary protections for plans and their participants and beneficiaries, and permits EBSA investigators and attorneys to focus their efforts on the adviser’s conduct rather than meeting the evidentiary requirements necessary to prove that all elements of the current regulation’s five-part test are satisfied. As discussed in further detail in the regulatory impact analysis above, the Department believes that amending the current regulation by broadening the scope of service providers, regardless of size, that would be considered fiduciaries would enhance the Department’s ability to redress service provider abuses that currently exist in the plan service provider market, such as undisclosed fees, misrepresentation of compensation arrangements, and biased appraisals of the value of employer securities and other plan investments.

b. *Affected Small Entities*

The Department is unable to estimate the number of small service providers that would be affected by the proposal. These service providers generally consist of professional service enterprises that provide a wide range of services to plans, such as investment management or advisory services for plans or plan participants, and appraisal, consulting, brokerage, pension insurance advisory services, investment evaluations, or valuation services. Many of these service providers have special education, training, and/or formal credentials in fields such as

ERISA and benefits administration, employee compensation, taxation, actuarial science, or finance.

The Small Business Administration considers service providers with annual revenues of less than \$7 million to be small entities. Using data from Schedule C of the Department's 2007 Form 5500, which generally is used by plans with over 100 participants to report service providers that rendered services to or had transactions with the plan and received \$5,000 or more in total direct or indirect compensation, the Department estimates that about 130 of the 5,300 affected service providers have total revenues reported on the Schedule C of over \$7 million. Based on the foregoing, there would be 5,170 service providers with revenues of less than \$7 million; however, this estimate overstates the total number of small entities that would be affected by the proposal, because it does not include revenues from the nearly 626,000 small plans that are not required to file the Schedule C and revenues from other sources.

c. Impact of the Proposal

Small entities that are determined to be fiduciaries under the Department's proposal will be required to act solely in the interest of their plan clients and participants and beneficiaries in connection with covered services. The Department believes that amending the current regulation to reflect additional circumstances where an investment advice provider is in a position of authority, control, responsibility, or influence with respect to a plan and its investment decisions is a critical component of protecting the interest of plans and the retirement income security of participants and beneficiaries.

The Department also is unable to estimate the increased business costs small entities would incur if they were determined to be fiduciaries under the proposal. Such costs would include the expense of purchasing fiduciary liability insurance due to the increased liability

exposure that is associated with ERISA fiduciary status. The Department estimates that, on average, affected service providers would incur a cost of \$1,900 to determine whether a service provider's contracts and arrangement with plans, or activities carried out pursuant to them, would make the service provider a fiduciary under the proposed rule.

It is possible that some small service providers may find that the increased costs associated with ERISA fiduciary status outweigh the benefit of continuing to service the ERISA plan market; however, the Department does not have sufficient information to determine the extent to which this will occur. It is possible that the economic impact of the rule on small entities would not be as significant as it would be for large entities, because generally, small entities do not have as many business arrangements that give rise to conflicts of interest. Therefore, they would not be confronted with significant costs to restructure transactions that would be faced by large entities.

The Department invites comments regarding all aspects of this IRFA.

10. Paperwork Reduction Act

The proposed rule is not subject to the requirements of the Paperwork Reduction Act of 1995 (PRA 95) (44 U.S.C. section 3501 et seq.), because it does not contain a collection of information as defined in 44 U.S.C. section 3502(3).

11. Congressional Review Act

The proposed rule is subject to the Congressional Review Act provisions of the Small Business Regulatory Enforcement Fairness Act of 1996 (5 U.S.C. 801 et seq.) and, if finalized, will be transmitted to Congress and the Comptroller General for review. The proposed rule is a "major rule" as that term is defined in 5 U.S.C. 804, because it is likely to result in an annual effect on the economy of \$100 million or more.

12. Unfunded Mandates Reform Act

For purposes of the Unfunded Mandates Reform Act of 1995 (Pub. L. 104-4), as well as Executive Order 12875, the proposed rule does not include any Federal mandate that may result in expenditures by State, local, or tribal governments in the aggregate of more than \$100 million, adjusted for inflation, or increase expenditures by the private sector of more than \$100 million, adjusted for inflation.

13. Federalism Statement

Executive Order 13132 (August 4, 1999) outlines fundamental principles of federalism, and requires the adherence to specific criteria by Federal agencies in the process of their formulation and implementation of policies that have substantial direct effects on the States, the relationship between the national government and States, or on the distribution of power and responsibilities among the various levels of government. This proposed rule does not have federalism implications, because it has no substantial direct effect on the States, on the relationship between the national government and the States, or on the distribution of power and responsibilities among the various levels of government. Section 514 of ERISA provides, with certain exceptions specifically enumerated, that the provisions of Titles I and IV of ERISA supersede any and all laws of the States as they relate to any employee benefit plan covered under ERISA. The requirements implemented in the proposed rule have no implications for the States or the relationship or distribution of power between the national government and the States.

Statutory Authority

This regulation is proposed pursuant to the authority in section 505 of ERISA (Pub. L. 93-406, 88 Stat. 894; 29 U.S.C. 1135) and section 102 of Reorganization Plan No. 4 of 1978 (43 FR 47713, October 17, 1978), effective December 31, 1978 (44 FR 1065, January 3, 1979), 3 CFR 1978 Comp. 332, and under Secretary of Labor's Order No. 1-2003, 68 FR 5374 (Feb. 3, 2003).

List of Subjects in 29 CFR Part 2510

Employee benefit plans, Employee Retirement Income Security Act, Pensions, Plan assets.

For the reasons set forth in the preamble, Chapter XXV, subchapter F, part 2510 of Title 29 of the Code of Federal Regulations is proposed to be amended as follows:

PART 2510—DEFINITION OF TERMS USED IN SUBCHAPTERS C, D, E, F, AND G OF THIS CHAPTER

1. The authority citation for part 2510 is revised to read as follows:

Authority: 29 U.S.C. 1002(2), 1002(21), 1002(37), 1002(38), 1002(40), 1031, and 1135; Secretary of Labor's Order 1-2003, 68 FR 5374; Secs. 2510.3-101 and 2510.3-102 also issued under sec. 102 of Reorganization Plan No. 4 of 1978, 43 FR 47713, 3 CFR, 1978 Comp., p. 332 and E.O. 12108, 44 FR 1065, 3 CFR, 1978 Comp., p. 275, and 29 U.S.C. 1135 note. Section 2510.3-38 also issued under Sec. 1, Pub. L. 105-72, 111 Stat. 1457.

2. In § 2510.3-21, revise paragraph (c) to read as follows:

§ 2510.3-21 Definition of “Fiduciary.”

* * * * *

(c) *Investment advice for a fee.* (1) General. Except as provided in paragraph (c)(2) of this section, a person renders “investment advice” for a fee or other compensation, direct or indirect,

to an employee benefit plan, within the meaning of section 3(21)(A)(ii) of the Employee Retirement Income Security Act of 1974 (the Act) and this paragraph, if:

(i) Such person –

(A)(1) Provides advice, or an appraisal or fairness opinion, concerning the value of securities or other property,

(2) Makes recommendations as to the advisability of investing in, purchasing, holding, or selling securities or other property, or

(3) Provides advice or makes recommendations as to the management of securities or other property,

(B) To a plan, a plan fiduciary or a plan participant or beneficiary;

(ii) Such person either directly or indirectly (e.g., through or together with any affiliate) -

(A) Represents or acknowledges that it is acting as a fiduciary within the meaning of the Act with respect to providing advice or making recommendations described in paragraph (c)(1)(i) of this section;

(B) Is a fiduciary with respect to the plan within the meaning of section 3(21)(A)(i) or (iii) of the Act;

(C) Is an investment adviser within the meaning of section 202(a)(11) of the Investment Advisers Act of 1940 (15 U.S.C. 80b-2(a)(11)); or

(D) Provides advice or makes recommendations described in paragraph (c)(1)(i) of this section pursuant to an agreement, arrangement or understanding, written or otherwise, between such person and the plan, a plan fiduciary, or a plan participant or beneficiary that such advice may be considered in connection with making investment or management decisions with respect

to plan assets, and will be individualized to the needs of the plan, a plan fiduciary, or a participant or beneficiary.

(2) Limitations. (i) For purposes of this paragraph (c), a person shall not be considered to be a person described in paragraph (c)(1) of this section with respect to the provision of advice or recommendations if, with respect to a person other than a person described in paragraph (c)(1)(ii)(A), such person can demonstrate that the recipient of the advice knows or, under the circumstances, reasonably should know, that the person is providing the advice or making the recommendation in its capacity as a purchaser or seller of a security or other property, or as an agent of, or appraiser for, such a purchaser or seller, whose interests are adverse to the interests of the plan or its participants or beneficiaries, and that the person is not undertaking to provide impartial investment advice.

(ii) For purposes of this paragraph (c), the following acts in connection with an individual account plan (as defined in section 3(34) of the Act) shall not, in and of themselves, be treated as the rendering of investment advice for purposes of section 3(21)(A)(ii):

(A) Provision of investment education information and materials within the meaning of 29 CFR 2509.96-1(d);

(B) Marketing or making available (e.g., through a platform or similar mechanism), without regard to the individualized needs of the plan, its participants, or beneficiaries, securities or other property from which a plan fiduciary may designate investment alternatives into which plan participants or beneficiaries may direct the investment of assets held in, or contributed to, their individual accounts, if the person making available such investments discloses in writing to the plan fiduciary that the person is not undertaking to provide impartial investment advice;

(C) In connection with the activities described in paragraph (c)(2)(ii)(B), the provision of general financial information and data to assist a plan fiduciary's selection or monitoring of such securities or other property as plan investment alternatives, if the person providing such information or data discloses in writing to the plan fiduciary that the person is not undertaking to provide impartial investment advice.

(iii) For purposes of paragraph (c)(1)(i) of this section, the term "advice, or appraisal or fairness opinion" shall not include the preparation of a general report or statement that merely reflects the value of an investment of a plan or a participant or beneficiary, provided for purposes of compliance with the reporting and disclosure requirements of the Act, the Internal Revenue Code, and the regulations, forms and schedules issued thereunder, unless such report involves assets for which there is not a generally recognized market and serves as a basis on which a plan may make distributions to plan participants and beneficiaries.

(3) Fee or other compensation. For purposes of this paragraph (c) and section 3(21)(A)(ii) of the Act, a fee or other compensation, direct or indirect, received by a person for rendering investment advice means any fee or compensation for the advice received by the person (or by an affiliate) from any source and any fee or compensation incident to the transaction in which the investment advice has been rendered or will be rendered. The term fee or compensation includes, for example, brokerage, mutual fund sales, and insurance sales commissions. It includes fees and commissions based on multiple transactions involving different parties.

(4) Internal Revenue Code. Section 4975(e)(3)(B) of the Internal Revenue Code of 1986 (Code) contains provisions parallel to section 3(21)(A)(ii) of the Act which define the term "fiduciary" for purposes of the prohibited transaction provisions in Code section 4975. Effective December 31, 1978, section 102 of the Reorganization Plan No. 4 of 1978, 5 U.S.C. App. 214

(2000 ed.) transferred the authority of the Secretary of the Treasury to promulgate regulations of the type published herein to the Secretary of Labor. All references herein to section 3(21)(A)(ii) of the Act should be read to include reference to the parallel provisions of section 4975(e)(3)(B) of the Code. Furthermore, the provisions of this paragraph (c) shall apply for purposes of the application of Code section 4975 with respect to any plan described in Code section 4975(e)(1).

(5) A person who is a fiduciary with respect to a plan by reason of rendering investment advice (as defined in paragraph (c)(1) of this section) for a fee or other compensation, direct or indirect, with respect to any moneys or other property of such plan, or having any authority or responsibility to do so, shall not be deemed to be a fiduciary regarding any assets of the plan with respect to which such person does not have any discretionary authority, discretionary control or discretionary responsibility, does not exercise any authority or control, does not render investment advice (as defined in paragraph (c)(1) of this section) for a fee or other compensation, and does not have any authority or responsibility to render such investment advice, provided that nothing in this paragraph shall be deemed to:

(i) Exempt such person from the provisions of section 405(a) of the Act concerning liability for fiduciary breaches by other fiduciaries with respect to any assets of the plan; or

(ii) Exclude such person from the definition of the term “party in interest” (as set forth in section 3(14)(B) of the Act) with respect to any assets of the plan.

* * * * *

Signed at Washington, DC, this 13th day of October, 2010.

Phyllis C. Borzi,

Assistant Secretary, Employee Benefits Security Administration, Department of Labor.

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