



# Northern Trust

Office of Regulations and Interpretations  
Employee Benefits Security Administration  
Room N-5669  
U.S. Department of Labor  
200 Constitution Avenue, N.W.  
Washington, D.C. 20210  
Attn: Form 5500 Regulation Revisions (RIN 1210-AB06)

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Dear Sir or Madam:

Re: Submission of Comments on Proposed Revisions of Form 5500

We appreciate the opportunity to provide comments on the intended changes to the Form 5500 and we hope that the EBSA finds these comments to be meritorious. The Northern Trust Company, headquartered in Chicago, Illinois, serves as trustee/custodian for over 1,500 U.S. employee benefit trusts, which includes nearly \$2.5 trillion in plan assets. We are also a sponsor of nearly 150 common and collective trust funds, as well as numerous mutual funds. As such, we provide an array of standard and customized reporting for plan sponsors, from Fortune 500 companies, to small plan filers. Our reports serve as the basis for much of the Schedule C and Schedule H (and soon-to-be Schedule B) data required for the Form 5500. We are continually looking for ways to efficiently provide the information needed by plan sponsors, enabling them to cost-effectively comply with their regulatory filing requirements, and we have taken a keen interest in the proposed changes promulgated by the EBSA.

Our comments and concerns regarding the proposal can be summarized as follows, and are discussed in subsequent detail below:

- **Proposed Implementation Date:**

- o Given the complexity of the proposed changes, and the need to further clarify a number of the data requests, additional time would be required to fully assess, redesign, and then test the systems changes required to incorporate the revisions in our 5500 reporting module.
- o An implementation date of 2008 does not allow for sufficient budgeting and resource planning, as the budgeting process for 2007 is already well underway.

- **Electronic Filing:**

- o We fully support the mandate for electronic submission of the Form 5500; however, additional time is needed industry-wide to comply with the mandate.
- o The requirement of electronic-only submissions of amended filings would be burdensome to plan sponsors and custodians.

- **Cost Estimates:**
  - o While the filing simplifications will accrue the benefits of reduced time and expense for many filers, the additional reporting disclosures for Schedules B and C will most certainly exceed the estimates suggested in the proposal.
  
- **Schedule B:**
  - o Ideally, the asset breakdowns suggested on Schedule B should be in concordance with the asset breakdowns that plan sponsors are already required to prepare for Schedule H, and for presentation in the plan financial statements. Further clarification on asset categorization would be helpful.
  - o Requesting the inclusion of the Macauley duration is likely to be more complicated, and could be more costly, than suggested in the proposal. The duration reporting process would greatly benefit from the allowance for additional time and further discussions to determine how investment managers, fund sponsors and custodians can best fill this reporting void for plan sponsors.
  - o The requirement to provide a look-through to the asset mix of pooled investments (and in the case of fixed income funds, a further look-through to the duration) introduces a higher level of complexity than contemplated in the proposal.
  
- **Schedule C:**
  - o Further clarification is respectively requested regarding the types of indirect compensation that is reportable under the proposal.
  - o Bank systems are not designed to track many of the components that the EBSA would like to see, and the resources required to gather this information may likely exceed the benefit, in our estimation.
  - o Given that plan sponsors have become increasingly more aware of the complexities of fee arrangements, and given certain current disclosure requirements, such as the up-front float discussions, we believe that the public's interest is best served by a thorough and proactive fee review prior to the commencement of services, rather than via after-the-fact disclosures on the Form 5500 filings.

### **Schedule B Discussion**

Plan sponsors today are challenged with providing two different asset breakdowns: one for the financial statements, under the guidance of FAS 35, and the other breakdown stipulated by the DOL for the Schedule H, Part 1: Assets and Liabilities. Preparers of the financial statements and Form 5500s struggle with reconciling these two discordant asset breakdowns, largely because the Schedule H stipulates the usage of the "Other" category, which is discouraged in the GAAP-compliant financials. The "Other" category on the Schedule H, as acknowledged in the proposal, includes holdings such as foreign government securities, REITs, derivatives, municipal bonds, offshore funds, hedge funds, and repurchase agreements.

The proposal requires yet a third method of sorting plan/trust assets. While the proposed Schedule B asset sort does mirror, in part, the sort required for 10-K filings, it will nonetheless

entail additional reconciliation and review by plan sponsors, and likely by their auditors. The ideal situation would be to synchronize the asset breakdowns across these four disclosures (FAS 35/financial statements, Form 5500 Schedules B, Schedule H, and FAS 132/10-K filings), or at the very least, within the 5500 filing.

An additional challenge of the Schedule B proposal relates to the Macauley duration disclosure requirement. If plan sponsors rely on the investment managers for the duration-by-asset-type figures (i.e., by government, investment grade, and high yield categories), they would need to compile the total trust duration figures manually across all fixed income managers. It is likely that plan sponsors will prefer to obtain the duration figures from the custodian, especially when the fixed income securities are spread across multiple fixed income investment managers (as is the case for the larger plans targeted by the Schedule B proposal, who may have in excess of a dozen fixed income managers).

The custodians can consolidate all fixed income plan assets across multiple managers, provide the duration figures for the assets, and calculate the requisite market-value-weighted duration by asset type, at the total trust level. We provide duration analysis for many plan sponsors today, at an additional fee over and above the standard custody fees. However, the preferred duration provided to our clients is the effective duration, or in some cases, the modified duration, not the Macauley duration, which is not widely viewed as the best measure of risk. (Investment managers are likely to lean toward reporting other duration calculations, as well, for the same reason.) Providing the proposed Macauley duration for all plan sponsor clients would require additional processing, and additional expenses.

Of larger concern, however, is the desire for disclosure of a look-through to the asset allocation, and presumably the duration, of assets held in "certain pooled investment funds". To provide this information for plans investing in a pooled Master Trust Investment Account is generally feasible today, given that plans make a similar disclosure of the master trust's Investments at Fair Value in the financial statement footnotes. As previously mentioned, however, the asset breakdown for the financial statement disclosure does not coincide with the breakdown proposed for Schedule B, and thus, it is likely that custodians would need to provide a third report to plan sponsors (i.e., in addition to reports that assist with the Investments at Fair Value and Form 5500 Schedule H holdings reports). Additional expenses likely would be passed along to plan sponsors.

If the "certain pooled investment fund" is intended to include other commingled vehicles, such as 103-12 entities (e.g., group trusts), LLCs or LPs, common or collective funds, or even mutual funds or the myriad of other offshore pooled funds, the level of complexity for plan sponsors increases exponentially. Again, many of the larger pension plans hold dozens of pooled funds. How would the asset breakdowns (and duration figures, for the fixed income funds) be rolled into the total trust asset breakdowns? We see two scenarios:

Scenario A: Plan Sponsors receive a "Schedule B" from each fund sponsor, and roll up the figures for all funds.

Scenario B: Custodians solicit holdings information from fund sponsors, and calculate the Schedule B information.

Both scenarios require considerable communication with the fund companies, many of whom are not aware that they will be approached for this information. If plan sponsors are looking to the custodians to provide this information, a possible solution for Northern Trust would be to utilize our Fund Peek-Through service, which pulls in the underlying holdings information from fund companies who have agreed to disclose their investments to us, as a third party, on behalf of the plan sponsors. However, expanding this service to all of our plan sponsor clients would entail considerable product redesign and expense, including the execution of agreements and coordination with thousands of pooled fund investment managers.

## **Schedule C**

It is our understanding that the additional fee disclosures contemplated under this proposal would follow the current reporting requirements today, as it relates to fees incurred by, and paid at, the master trust level. That is, in situations where a master trust holds assets of more than one plan, and the trust-related fees are paid out of the commingled investments, these non-plan specific fees (trust custody fees, investment manager fees, broker fees, etc.) would be reflected only on the Master Trust Investment Account (MTIA) Form 5500 Schedule C. To do otherwise would create a significant reporting burden if plan sponsors or service providers were required to unravel these fees and attempt to attribute them to certain plans, especially in daily-valued defined contribution plans.

Regarding the desire to track and report float by plan, it is important to note that while banks may be able to estimate the float attributable to one plan or another, these systems are designed merely as a modeling tool. We can and do provide float analysis reports to specific clients on an ad-hoc basis; however, the reports require substantial data gathering and analytical work. To provide this type of information for the nearly 10,000 benefit payment plans for which we issue pension benefits would require systems development, and a requisite staff to perform maintenance and review extracted data. The cost of generating this indirect compensation information for plans will likely be reflected in the increased cost of providing check issuance services.

In our view, the status quo provides ample opportunity for plan sponsors to understand and discuss the impact of float with their service providers. We invite plan sponsors to undertake a float study when warranted, especially when there are measurable changes in the mix of lump sum versus recurring check issuances, interest rates, or the addition or merger of plans. Rather than requiring banks and plan sponsors to annually quantify the float figures attributable to each and every plan, is it not sufficient that plan sponsors and service providers discuss the check issuance process up front, during the vendor selection and RFP process, and then intermittently thereafter, as circumstances would dictate the need. The fact that we are seeing questions regarding float in many, if not most, custody RFPs substantiates the fact that plan sponsors are becoming increasingly more aware of the impact of float, and they leverage this when negotiating fees.

We thank you in advance for your due consideration of our comments and would welcome discussing them further as you work to finalize the revisions to the Form 5500.

Sincerely,

Gabriel Lorenzo  
Senior Vice President and Director  
Investment Valuation Services  
The Northern Trust Company  
312-630-6000