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VIA ELECTRONIC FILING

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BARCLAYS GLOBAL INVESTORS

Office of Regulations and Interpretations
Employee Benefits Security Administration
Room N-5669
U.S. Department of Labor
200 Constitution Ave., NW
Washington, DC 20210
Attn: Fee Disclosure RFI

Re: Fee and Expense Disclosure to Participants in Individual Account Plans

Barclays Global Investors ("BGI") is pleased to offer its comments regarding the Request for Information ("RFI") issued by the Employee Benefits Security Administration ("EBSA") concerning fee and expense disclosures to participants in individual account plans.

BGI is one of the world's largest institutional investment managers, and the world's largest provider of structured investment strategies such as indexing, tactical asset allocation, and quantitative active strategies. At December 31, 2006 BGI managed over US$1.8 trillion dollars with approximately US$ 188 billion dollars for US defined contribution plans. Headquartered in San Francisco, BGI is a subsidiary of Barclays Bank PLC, one of the world's leading diversified financial services companies.

From its founding, BGI has focused on providing low cost investment solutions for its clients. BGI's interest in this RFI is based on its acting solely as an investment manager for its clients in defined contribution/individual account plans. Neither BGI nor any of its affiliates currently act as a master trustee, provide recordkeeping services, operate a retail brokerage, or offer individual retirement accounts. It does act as named custodian but custody operations, fund accounting and related services are provided by third parties.

Introduction

BGI is pleased to see the recent focus of EBSA, other federal regulators, Congress and others on fees and expenses borne by plan participants in participant directed retirement plans. The fees and expenses incurred in an investment option can, over time, significantly erode the amount of income ultimately available for a participant's retirement. Participants in these plans should be able to readily access appropriate, easily understood information about critical issues that affect their investment decisions.

We note however that the amount and types of information that a plan participant should have in order to make informed decisions among investment options made available by a plan sponsor is different than the information needed by plan sponsors who are selecting the investment options a wider array of choices.

Disclosures to Participants

Studies show that plan participants respond with confusion and inertia when presented with too much information or too much choice.[1] In addition, the cost to plan service providers of providing detailed disclosure is likely to be passed through as increased expenses and ultimately borne by the participants in a plan. It is these two principles that should guide EBSA in evaluating the rules or guidance that it issues relating to the disclosure of fees and expenses at the plan participant level.

The essential information required by each plan participant is, for each investment option, investment objective and strategy, key investment risks, historical performance and total cost of participating in the investment option to the plan participant. This information could be best presented to plan participants in a simple chart that sets out for each investment option the gross historical return, the total expenses, and net return. In order for the total expense number to be both simple and meaningful to plan participants, it should include investment management expenses and separate recordkeeping and/or administrative costs, if any. For mutual funds and other investment options that bundle all costs borne by plan participants, the total expenses would be the total expense ratio of the fund. For investment options that do not bundle all costs, such as insurance products, the plan sponsor and plan administrator could easily aggregate investment costs and other costs that are passed through to plan participants as expenses deducted from the investment option's unit value. This method of comparing total expenses would permit valid comparison of true expenses to plan participants across mutual funds, collective trust funds, and insurance products[2]. For most plan participants the relevant information is not the breakdown between investment management fees, recordkeeping fees, administrative expenses or other costs—rather it is the effect of all these expenses on returns (how returns are reduced by total costs) that most

[1] "How Much Choice is Too Much?: Contributions to 401(k) Retirement Plans", Iyengar, Jiang, Huberman, Pension Research Council Working Paper (Wharton 2003)

[2] Currently, to the extent that any information at all is made available to plan participants, the information is generally the expenses of the investment vehicle used to fund the investment option (e.g., mutual fund, etc.) rather than the expenses of the investment option itself. The expenses of the investment vehicle may include recordkeeping and administrative costs (to the extent those are funded through Rule 12b-1 fees, revenue sharing or other payments made by the investment vehicle or its sponsor) but do not necessarily include all costs borne by plan participants in all cases.

informs the investment decision. Total expense needs to include all fees and expenses that are directly or indirectly borne by the plan participant, whether asset-based or per capita fees[3].

In addition to the simplicity of presentation for the participant, another advantage of using a total expense/net return disclosure is that this data is readily available as the plan administrator is using this figure already to calculate unit values for investment options. In some cases, this is based on its own information and in other cases (e.g., mutual funds) is part of the funding vehicles' net asset value in which case relevant information not directly possessed by the plan administrator but is available or could be made readily available through disclosure documents.[4]

In its rules or guidance EBSA should establish a uniform form for disclosure of information for plan participants. This form should be prepared and provided by the plan sponsor annually to plan participants, and the most current version of the disclosure should be provided to participants as part of the enrollment process, regardless of whether the plan is intended to be 404(c) compliant. Use of a uniform form provides benefits to participants as they will over time become familiar with the disclosures, regardless of a change in employer. The benefit to the plan sponsors for an EBSA sanctioned disclosure on fees and expenses is assurance that the disclosures are complete, and that service providers will be able to provide the same information in similar format to each of their clients, easing the burden of preparation for the sponsor.

Plan Sponsors and Service Provider Conduct

The RFI asks whether the provision of additional information to participants would affect conduct of plan sponsors and service providers.

For a number of years experts have expressed concerns about the adequacy of information available to plan sponsors and participants regarding fees and expenses incurred

[3] Portfolio management transaction costs and expenses (as compared to investment management fees, and administrative and other expenses imposed at the investment option level) are reflected in the investment return. The cost of producing a breakout of this secondary level of information likely outweighs its value for participants in making their investment decisions.

[4] For the disclosure to be complete, there will need to be a notation that individual participant initiated activity (e.g., loans, use of brokerage window) will be separately charged to the participants account outside of the investment product.

in 401(k) and similar plans.[5] In 2005 a report issued by the ERISA Advisory Council Working Group on Fees and Related Disclosures to Participants concluded that the shift to asset-based fees and the proliferation of revenue sharing arrangements between funds and plan service providers has made it challenging for plan sponsors to understand fee and expense structures. This understanding by plan sponsors is necessary to enable them make prudent and informed decisions on the selection of service providers. And GAO, in its November 2006 report reiterated concerns that disclosures to participants and plan sponsors are also not adequate for informed decision-making[6].

EBSA has sought to address these concerns, with the proposed changes to the Form 5500, as well as its ongoing efforts to issue an interpretation under ERISA Sec. 408(b)(2) of "reasonable arrangement" to require a party in interest service provider to disclose fee arrangements with third parties in connection with services provided to the plan.

In general there are two ways that plan sponsors use to acquire all of the services they need for their 401(k) program. The plan sponsor hires one company that provides the full range of service directly or through subcontracts (referred to as "bundled") or the plan sponsor uses a combination of service providers (referred to as "unbundled"). While there may be service and cost advantages in either model depending upon the plan sponsor's needs, this variation contributes to the challenges a plan sponsor faces in assessing its various alternatives.

Just as a plan participant needs to be able to make a decision based on comparable information across investment options, a plan sponsor needs to receive information from its service providers in a way that promotes comparison during the selection process. The sponsor needs to be able to assess the actual expenses as may be applied against each investment option. This would permit the plan sponsor to determine, for example, whether the fees for a particular domestic equity fund are high (as compared to its peer group). The decision to provide an investment option that is more expensive than is otherwise available is the same as allocating additional expenses to participants who choose that investment option or who have higher balances in their accounts.

Many plan sponsors understand the need to consider the differences that might arise between individual participants in the application of charges against their accounts. However,

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[5] One of these reports, prepared by a consultant retained by the Department of Labor, was published nearly ten years ago. "Study of 401(k) Plan Fees and Expenses", Economic Systems, Inc. (April 1998).
[6] Report GAO-07-21, "Private Pensions: Changes Needed to Provide 401(k) Plan Participants and the Department of Labor Better Information on Fees" (November 2006).

it is difficult for a plan sponsors to obtain and effectively analyze the information necessary for its decisions, due to the multiplicity of investment vehicles and business models of service providers. A sponsor's ability to make judicious decisions would be greatly enhanced if bundled service providers were required to disclose separately the total cost to the sponsor for record keeping as well as the cost for investment management alone.

EBSA's efforts to assure appropriate disclosure to plan participants necessarily requires improved disclosures by service providers to plan sponsors.

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The RFI is an important first step in the EBSA's efforts to assure that plan participants receive the appropriate disclosures that will assist them in making sound investment decisions about their retirement assets. It is a complex area, given the need to determine the right amount of information presented in a useful and meaningful way. At the same time, given the role of the plan sponsor in the selection of investment options and service providers, it is important that EBSA also progress its efforts in assuring that plan sponsors also have the information they need.

BGI looks forward to discussing its views on this very important topic with EBSA.

Sincerely,

Kristi Mitchem
Head of US Defined Contribution