

**DEPARTMENT OF LABOR**

**Employee Benefits Security Administration**

**29 CFR Part 2550**

**[Application No. D-11713; Prohibited Transaction Exemption 2016-02]**

**Class Exemption for Principal Transactions in Certain Assets between Investment Advice Fiduciaries and Employee Benefit Plans and IRAs; Correction**

**ZRIN 1210-ZA25**

**AGENCY:** Employee Benefits Security Administration (EBSA), U.S. Department of Labor.

**ACTION:** Technical corrections.

**SUMMARY:** This document makes technical corrections to the Department of Labor’s Class Exemption for Principal Transactions in Certain Assets between Investment Advice Fiduciaries and Employee Benefit Plans and IRAs (Principal Transactions Exemption), which was published in the Federal Register on April 8, 2016. The Principal Transactions Exemption permits principal transactions and riskless principal transactions in certain investments between a plan, plan participant or beneficiary account, or an IRA, and a fiduciary that provides investment advice to the plan or IRA, under conditions to safeguard the interests of these investors. The corrections either fix typographical errors or make minor clarifications to provisions that might otherwise be confusing.

**DATES:** *Issuance date:* These technical corrections are issued [INSERT DATE OF PUBLICATION IN THE FEDERAL REGISTER], without further action or notice.

*Applicability date:* The Principal Transactions Exemption, as corrected herein, is applicable to transactions occurring on or after April 10, 2017.

**FOR FURTHER INFORMATION CONTACT:** Brian Shiker, Office of Exemption

Determinations, Employee Benefits Security Administration, U.S. Department of Labor, (202) 693-8824 (this is not a toll-free number).

## **SUPPLEMENTARY INFORMATION:**

### **Background**

The Principal Transactions Exemption was granted pursuant to section 408(a) of the Employee Retirement Income Security Act of 1974 (ERISA) and section 4975(c)(2) of the Internal Revenue Code (the Code), and in accordance with the procedures set forth in 29 CFR part 2570, subpart B (76 FR 66637 (October 27, 2011)). It was adopted by the Department in connection with the publication of a final regulation defining who is a fiduciary of an employee benefit plan under ERISA as a result of giving investment advice to a plan or its participants or beneficiaries (Regulation).<sup>1</sup> The Regulation also applies to the definition of a “fiduciary” of a plan (including an IRA) under the Code.

The Principal Transactions Exemption allows an individual investment advice fiduciary (an Adviser) and the firm that employs or otherwise contracts with the Adviser (a Financial Institution) to engage in principal transactions and riskless principal transactions involving certain investments, with plans, participant and beneficiary accounts, and IRAs. The exemption limits the type of investments that may be purchased or sold and contains conditions which the Adviser and Financial Institution must satisfy in order to rely on the exemption. To safeguard the interests of plans, participants and beneficiaries, and IRA owners, the exemption requires Financial Institutions to give the appropriate fiduciary of the plan or IRA owner a written statement in which the Financial Institution acknowledges its fiduciary status and that of its Advisers. The Financial Institution and Adviser must adhere to enforceable standards of

---

<sup>1</sup> 81 FR 20945 (April 8, 2016).

fiduciary conduct and fair dealing when providing investment advice regarding the transaction to Retirement Investors. In the case of IRAs and non-ERISA plans, the exemption requires that these standards be set forth in an enforceable contract with the Retirement Investor. Under the exemption's terms, Financial Institutions are not required to enter into a contract with ERISA plan investors, but they are obligated to acknowledge fiduciary status in writing, and adhere to these same standards of fiduciary conduct, which the investors can effectively enforce pursuant to section 502(a)(2) and (3) of ERISA. Under this standards-based approach, the Adviser and Financial Institution must give prudent advice that is in the customer's Best Interest, avoid misleading statements, and seek to obtain the best execution reasonably available under the circumstances with respect to the transaction. Additionally, Financial Institutions must adopt policies and procedures reasonably designed to mitigate any harmful impact of conflicts of interest, and must disclose their conflicts of interest to Retirement Investors. Finally, Financial Institutions relying on the exemption must obtain the Retirement Investor's consent to participate in principal transactions and riskless principal transactions, and the Financial Institutions are subject to recordkeeping requirements.

### **Explanation of Corrections**

This document makes technical corrections to the Principal Transactions Exemption as described below. In addition, the document adds an identifier, Prohibited Transaction Exemption 2016-02, to the heading of the Principal Transactions Exemption. For convenience, the text of the corrected exemption is reprinted in its entirety at the conclusion of this document. The preamble to the originally granted exemption provides a general overview of the exemption, at 81 FR 21089.

1. In the preamble discussion of the negative consent procedure for entering into the contract with existing contract holders, page 21102, the Principal Transactions Exemption states that “If the Retirement Investor does terminate the contract within that 30-day period, this exemption will provide relief for 14 days after the date on which the termination is received by the Financial Institution.” However, Section II(a)(1)(ii) of the exemption text regarding the negative consent procedure, page 21134, inadvertently failed to include that sentence. Section II(a)(1)(ii) is corrected to insert that sentence as the second sentence of the section. This correction will provide certainty to parties relying on the Principal Transactions Exemption as to the period of relief following termination of the contract by any Retirement Investor.

2. The second sentence of Section IV(b) of the Principal Transactions Exemption, page 21136, repeated the phrase “in effect.” The second sentence of Section IV(b) is corrected to delete the repetitive phrase.

3. The definition of “Adviser” in Section VI(a) of the Principal Transactions Exemption, page 21137, provided, in relevant part, that an Adviser “means an individual who: (1) Is a fiduciary of a Plan or IRA *solely* by reason of the provision of investment advice described in ERISA section 3(21)(A)(ii) or Code section 4975(e)(3)(B), or both, and the applicable regulations, with respect to the Assets involved in the transaction (emphasis added).” In contrast, Section I(c)(1)(i) of the Principal Transactions Exemption, page 21133, excludes an Adviser that “has or exercises any discretionary authority or discretionary control respecting management of the assets of the Plan, participant or beneficiary account, or IRA involved in the transaction or exercises any discretionary authority or control respecting management or the disposition of the assets[.]” In using the word “solely” in Section VI(a), the Department did not intend to prevent Advisers from using the Principal Transactions Exemption if they have

discretionary authority over other assets of the Plan or IRA that are not subject to the investment advice, or if they previously had, or subsequently gain, discretionary authority over assets of the Plan or IRA. To avoid any doubt as to the availability of the Principal Transactions Exemption under these circumstances, Section VI(a)(1) is corrected to delete the word “solely.” In addition, Section VI(a)(1) used the term “Assets,” which was intended to refer to the assets of the Plan or IRA, but was not a defined term in the exemption. Section VI(a)(1) is further corrected to replace the word “Assets” with the phrase “the assets of the Plan or IRA.”

4. The definition of Financial Institution in Section VI(e)(1), (2) and (3) of the Principal Transactions Exemption, page 21137-8, sets forth the three types of entities that can be Financial Institutions under the exemption, separated by the conjunction “and” between subsection VI(e) (2) and (3). The Department did not intend to require that a Financial Institution satisfy each of subsections VI(e)(1), (2) and (3). For clarity, the conjunction “and” following subsection VI(e) (2) is deleted and replaced by the conjunction “or.”

5. In the preamble discussion of the definition of Principal Traded Asset, page 21096, the exemption states that a Principal Traded Asset for purposes of the class exemption includes an investment that is permitted to be purchased under an individual exemption granted by the Department after the *issuance* date of the exemption, that provides relief for investment advice fiduciaries to engage in the purchase of the investment in a principal transaction or riskless principal transaction with a Plan or IRA under the same conditions as this exemption. However, Section VI(j) of the exemption text, page 21138, which defines Principal Traded Asset, incorrectly uses the term *effective* date rather than issuance date. Subsection VI(j)(iv) is corrected to replace the word “effective” with the word “issuance.” This correction will provide certainty to parties relying on the Principal Transactions Exemption as to definition of the

Principal Traded Asset.

Based on the limited, corrective purpose of these changes, the Department finds for good cause that notice and public comment procedure is unnecessary. These corrections have been made as part of a routine determination, and are expected to be insignificant in nature and impact. All of the corrections either fix typographical errors or clarify provisions that might otherwise be confusing. The corrections set forth in this document will not alter the analysis and data contained in the RIA applicable to the rulemaking nor alter the assessment of its costs and benefits. The Department's complete RIA is available at <https://www.dol.gov/ebsa/pdf/conflict-of-interest-ria.pdf>.

### **Paperwork Reduction Act Statement**

As part of its continuing effort to reduce paperwork and respondent burden, the Department conducts a preclearance consultation program to provide the general public and Federal agencies with an opportunity to comment on proposed and continuing collections of information in accordance with the Paperwork Reduction Act of 1995 (PRA) (44 U.S.C. 3506(c)(2)(A)). This helps to ensure that the public understands the Department's collection instructions, respondents can provide the requested data in the desired format, reporting burden (time and financial resources) is minimized, collection instructions are clearly understood, and the Department can properly assess the impact of collection requirements on respondents.

As discussed above, the Department is issuing technical corrections to its final Principal Transactions Exemption which was published in the Federal Register on April 8, 2016 (81 FR 21089). All of the corrections either fix typographical errors or make minor clarifications to provisions that might otherwise be confusing. The collections of information for the final

exemption were approved under OMB control number 1210-0157, which is currently scheduled to expire on June 30, 2019.

In FR Doc. 2016-07926, appearing on page 21089 in the Federal Register of Friday, April 8, 2016, the following corrections are made. On pages 21133 through 21139, the Principal Transactions Exemption is corrected to read as follows:

## **Exemption**

### **Section I--Exemption**

(a) In general. ERISA and the Internal Revenue Code prohibit fiduciary advisers to employee benefit plans (Plans) and individual retirement plans (IRAs) from self-dealing, including receiving compensation that varies based on their investment recommendations. ERISA and the Code also prohibit fiduciaries from engaging in securities purchases and sales with Plans or IRAs on behalf of their own accounts (Principal Transactions). This exemption permits certain persons who provide investment advice to Retirement Investors (i.e., fiduciaries of Plans, Plan participants or beneficiaries, or IRA owners) to engage in certain Principal Transactions and Riskless Principal Transactions as described below.

(b) Exemption. This exemption permits an Adviser or Financial Institution to engage in the purchase or sale of a Principal Traded Asset in a Principal Transaction or Riskless Principal Transaction with a Plan, participant or beneficiary account, or IRA, and receive a mark-up, mark-down or other similar payment as applicable to the transaction for themselves or any Affiliate, as a result of the Adviser's and Financial Institution's advice regarding the Principal

Transaction or Riskless Principal Transaction. As detailed below, Financial Institutions and Advisers seeking to rely on the exemption must acknowledge fiduciary status, adhere to Impartial Conduct Standards in rendering advice, disclose Material Conflicts of Interest associated with Principal Transactions and Riskless Principal Transactions and obtain the consent of the Plan or IRA. In addition, Financial Institutions must adopt certain policies and procedures, including policies and procedures reasonably designed to ensure that individual Advisers adhere to the Impartial Conduct Standards; and retain certain records. This exemption provides relief from ERISA section 406(a)(1)(A) and (D) and section 406(b)(1) and (2), and the taxes imposed by Code section 4975(a) and (b), by reason of Code section 4975(c)(1)(A), (D), and (E). The Adviser and Financial Institution must comply with the conditions of Sections II-V.

(c) Scope of this exemption: This exemption does not apply if:

(1) The Adviser: (i) Has or exercises any discretionary authority or discretionary control respecting management of the assets of the Plan, participant or beneficiary account, or IRA involved in the transaction or exercises any discretionary authority or control respecting management or the disposition of the assets; or (ii) has any discretionary authority or discretionary responsibility in the administration of the Plan, participant or beneficiary account, or IRA; or

(2) The Plan is covered by Title I of ERISA and (i) the Adviser, Financial Institution or any Affiliate is the employer of employees covered by the Plan, or (ii) the Adviser or Financial Institution is a named fiduciary or plan administrator (as defined in ERISA section 3(16)(A)) with respect to the Plan, or an Affiliate thereof, that was selected to provide investment advice to the plan by a fiduciary who is not Independent.



## **Section II--Contract, Impartial Conduct, and Other Conditions.**

The conditions set forth in this section include certain Impartial Conduct Standards, such as a Best Interest standard, that Advisers and Financial Institutions must satisfy to rely on the exemption. In addition, this section requires Financial Institutions to adopt anti-conflict policies and procedures that are reasonably designed to ensure that Advisers adhere to the Impartial Conduct Standards, and requires disclosure of important information about the Principal Transaction or Riskless Principal Transaction. With respect to IRAs and Plans not covered by Title I of ERISA, the Financial Institutions must agree that they and their Advisers will adhere to the exemption's standards in a written contract that is enforceable by the Retirement Investors. To minimize compliance burdens, the exemption provides that the contract terms may be incorporated into account opening documents and similar commonly-used agreements with new customers, and the exemption permits reliance on a negative consent process with respect to existing contract holders. The contract does not need to be executed before the provision of advice to the Retirement Investor to engage in a Principal Transaction or Riskless Principal Transaction. However, the contract must cover any advice given prior to the contract date in order for the exemption to apply to such advice. There is no contract requirement for recommendations to Retirement Investors about investments in Plans covered by Title I of ERISA, but the Impartial Conduct Standards and other requirements of Section II(b)-(e) must be satisfied in order for relief to be available under the exemption, as set forth in Section II(g). Section II(a) imposes the following conditions on Financial Institutions and Advisers:

(a) Contracts with Respect to Principal Transactions and Riskless Principal Transactions Involving IRAs and Plans Not Covered by Title I of ERISA. If the investment advice resulting in the Principal Transaction or Riskless Principal Transaction concerns an IRA or a Plan that is not covered by Title I, the advice is subject to an enforceable written contract on the part of the Financial Institution, which may be a master contract covering multiple recommendations, that is entered into in accordance with this Section II(a) and incorporates the terms set forth in Section II(b)-(d). The Financial Institution additionally must provide the disclosures required by Section II(e). The contract must cover advice rendered prior to the execution of the contract in order for the exemption to apply to such advice and related compensation.

(1) Contract Execution and Assent.

(i) New Contracts. Prior to or at the same time as the execution of the Principal Transaction or Riskless Principal Transaction, the Financial Institution enters into a written contract with the Retirement Investor acting on behalf of the Plan, participant or beneficiary account, or IRA, incorporating the terms required by Section II(b)-(d). The terms of the contract may appear in a standalone document or they may be incorporated into an investment advisory agreement, investment program agreement, account opening agreement, insurance or annuity contract or application, or similar document, or amendment thereto. The contract must be enforceable against the Financial Institution. The Retirement Investor's assent to the contract may be evidenced by handwritten or electronic signatures.

(ii) Amendment of Existing Contracts by Negative Consent. As an alternative to executing a contract in the manner set forth in the preceding paragraph, the Financial Institution may amend Existing Contracts to include the terms required in Section II(b)-(d) by delivering the proposed amendment and the disclosure required by Section II(e) to the Retirement Investor

prior to January 1, 2018, and considering the failure to terminate the amended contract within 30 days as assent. If the Retirement Investor does terminate the contract within that 30-day period, this exemption will provide relief for 14 days after the date on which the termination is received by the Financial Institution. An Existing Contract is an investment advisory agreement, investment program agreement, account opening agreement, insurance contract, annuity contract, or similar agreement or contract that was executed before January 1, 2018, and remains in effect. If the Financial Institution elects to use the negative consent procedure, it may deliver the proposed amendment by mail or electronically, provided such means is reasonably calculated to result in the Retirement Investor's receipt of the proposed amendment, but it may not impose any new contractual obligations, restrictions, or liabilities on the Retirement Investor by negative consent.

(2) Notice. The Financial Institution maintains an electronic copy of the Retirement Investor's contract on the Financial Institution's website that is accessible by the Retirement Investor.

(b) Fiduciary. The Financial Institution affirmatively states in writing that the Financial Institution and the Adviser(s) act as fiduciaries under ERISA or the Code, or both, with respect to any investment advice regarding Principal Transactions and Riskless Principal Transactions provided by the Financial Institution or the Adviser subject to the contract, or in the case of an ERISA Plan, with respect to any investment advice regarding Principal Transactions and Riskless Principal Transactions between the Financial Institution and the Plan or participant or beneficiary account.

(c) Impartial Conduct Standards. The Financial Institution states that it and its Advisers agree to adhere to the following standards and, they in fact, comply with the standards:

(1) When providing investment advice to a Retirement Investor regarding the Principal Transaction or Riskless Principal Transaction, the Financial Institution and Adviser provide investment advice that is, at the time of the recommendation, in the Best Interest of the Retirement Investor. As further defined in Section VI(c), such advice reflects the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, based on the investment objectives, risk tolerance, financial circumstances, and needs of the Retirement Investor, without regard to the financial or other interests of the Adviser, Financial Institution, or any Affiliate or other party;

(2) The Adviser and Financial Institution seek to obtain the best execution reasonably available under the circumstances with respect to the Principal Transaction or Riskless Principal Transaction.

(i) Financial Institutions that are FINRA members shall satisfy this Section II(c)(2) if they comply with the terms of FINRA rules 2121 (Fair Prices and Commissions) and 5310 (Best Execution and Interpositioning), or any successor rules in effect at the time of the transaction, as interpreted by FINRA, with respect to the Principal Transaction or Riskless Principal Transaction.

(ii) The Department may identify specific requirements regarding best execution and/or fair prices imposed by another regulator or self-regulatory organization relating to additional Principal Traded Assets pursuant to Section VI(j)(1)(iv) in an individual exemption that may be satisfied as an alternative to the standard set forth in Section II(c)(2) above.

(3) Statements by the Financial Institution and its Advisers to the Retirement Investor about the Principal Transaction or Riskless Principal Transaction, fees and compensation related to the

Principal Transaction or Riskless Principal Transaction, Material Conflicts of Interest, and any other matters relevant to a Retirement Investor's decision to engage in the Principal Transaction or Riskless Principal Transaction, will not be materially misleading at the time they are made.

(d) Warranty. The Financial Institution affirmatively warrants, and in fact complies with, the following:

(1) The Financial Institution has adopted and will comply with written policies and procedures reasonably and prudently designed to ensure that its individual Advisers adhere to the Impartial Conduct Standards set forth in Section II(c);

(2) In formulating its policies and procedures, the Financial Institution has specifically identified and documented its Material Conflicts of Interest associated with Principal Transactions and Riskless Principal Transactions; adopted measures reasonably and prudently designed to prevent Material Conflicts of Interest from causing violations of the Impartial Conduct Standards set forth in Section II(c); and designated a person or persons, identified by name, title or function, responsible for addressing Material Conflicts of Interest and monitoring Advisers' adherence to the Impartial Conduct Standards;

(3) The Financial Institution's policies and procedures require that neither the Financial Institution nor (to the best of the Financial Institution's knowledge) any Affiliate uses or relies on quotas, appraisals, performance or personnel actions, bonuses, contests, special awards, differential compensation or other actions or incentives that are intended or would reasonably be expected to cause individual Advisers to make recommendations regarding Principal Transactions and Riskless Principal Transactions that are not in the Best Interest of the Retirement Investor. Notwithstanding the foregoing, the requirement of this Section II(d)(3)

does not prevent the Financial Institution or its Affiliates from providing Advisers with differential compensation (whether in type or amount, and including, but not limited to, commissions) based on investment decisions by Plans, participant or beneficiary accounts, or IRAs, to the extent that the policies and procedures and incentive practices, when viewed as a whole, are reasonably and prudently designed to avoid a misalignment of the interests of Advisers with the interests of the Retirement Investors they serve as fiduciaries;

(4) The Financial Institution's written policies and procedures regarding Principal Transactions and Riskless Principal Transactions address how credit risk and liquidity assessments for Debt Securities, as required by Section III(a)(3), will be made.

(e) Transaction Disclosures. In the contract, or in a separate single written disclosure provided to the Retirement Investor or Plan prior to or at the same time as the execution of the Principal Transaction or Riskless Principal Transaction, the Financial Institution clearly and prominently:

(1) Sets forth in writing (i) the circumstances under which the Adviser and Financial Institution may engage in Principal Transactions and Riskless Principal Transactions with the Plan, participant or beneficiary account, or IRA, (ii) a description of the types of compensation that may be received by the Adviser and Financial Institution in connection with Principal Transactions and Riskless Principal Transactions, including any types of compensation that may be received from third parties, and (iii) identifies and discloses the Material Conflicts of Interest associated with Principal Transactions and Riskless Principal Transactions;

(2) Except for Existing Contracts, documents the Retirement Investor's affirmative written consent, on a prospective basis, to Principal Transactions and Riskless Principal Transactions between the Adviser or Financial Institution and the Plan, participant or beneficiary account, or IRA;

(3) Informs the Retirement Investor (i) that the consent set forth in Section II(e)(2) is terminable at will upon written notice by the Retirement Investor at any time, without penalty to the Plan or IRA, (ii) of the right to obtain, free of charge, copies of the Financial Institution's written description of its policies and procedures adopted in accordance with Section II(d), as well as information about the Principal Traded Asset, including its purchase or sales price, and other salient attributes, including, as applicable: the credit quality of the issuer; the effective yield; the call provisions; and the duration, provided that if the Retirement Investor's request is made prior to the transaction, the information must be provided prior to the transaction, and if the request is made after the transaction, the information must be provided within 30 business days after the request, (iii) that model contract disclosures or other model notice of the contractual terms which are reviewed for accuracy no less than quarterly and updated within 30 days as necessary are maintained on the Financial Institution's website, and (iv) that the Financial Institution's written description of its policies and procedures adopted in accordance with Section II(d) is available free of charge on the Financial Institution's website; and

(4) Describes whether or not the Adviser and Financial Institution will monitor the Retirement Investor's investments that are acquired through Principal Transactions and Riskless Principal Transactions and alert the Retirement Investor to any recommended change to those investments and, if so, the frequency with which the monitoring will occur and the reasons for which the Retirement Investor will be alerted.

(5) The Financial Institution will not fail to satisfy this Section II(e), or violate a contractual provision based thereon, solely because it, acting in good faith and with reasonable diligence, makes an error or omission in disclosing the required information, or if the website is temporarily inaccessible, provided that (i) in the case of an error or omission on the web, the

Financial Institution discloses the correct information as soon as practicable, but not later than 7 days after the date on which it discovers or reasonably should have discovered the error or omission, and (ii) in the case of other disclosures, the Financial Institution discloses the correct information as soon as practicable, but not later than 30 days after the date on which it discovers or reasonably should have discovered the error or omission. To the extent compliance with this requires Advisers and Financial Institutions to obtain information from entities that are not closely affiliated with them, they may rely in good faith on information and assurances from the other entities, as long as they do not know that the materials are incomplete or inaccurate. This good faith reliance applies unless the entity providing the information to the Adviser and Financial Institution is (1) a person directly or indirectly through one or more intermediaries, controlling, controlled by, or under common control with the Adviser or Financial Institution; or (2) any officer, director, employee, agent, registered representative, relative (as defined in ERISA section 3(15)), member of family (as defined in Code section 4975(e)(6)) of, or partner in, the Adviser or Financial Institution.

(f) Ineligible Contractual Provisions. Relief is not available under the exemption if a Financial Institution's contract contains the following:

(1) Exculpatory provisions disclaiming or otherwise limiting liability of the Adviser or Financial Institution for a violation of the contract's terms;

(2) Except as provided in paragraph (f)(4) of this section, a provision under which the Plan, IRA or the Retirement Investor waives or qualifies its right to bring or participate in a class action or other representative action in court in a dispute with the Adviser or Financial Institution, or in an individual or class claim agrees to an amount representing liquidated damages for breach of the contract; provided that, the parties may knowingly agree to waive the



Retirement Investor's right to obtain punitive damages or rescission of recommended transactions to the extent such a waiver is permissible under applicable state or federal law; or

(3) Agreements to arbitrate or mediate individual claims in venues that are distant or that otherwise unreasonably limit the ability of the Retirement Investors to assert the claims safeguarded by this exemption.

(4) In the event provision on pre-dispute arbitration agreements for class or representative claims in paragraph (f)(2) of this section is ruled invalid by a court of competent jurisdiction, this provision shall not be a condition of this exemption with respect to contracts subject to the court's jurisdiction unless and until the court's decision is reversed, but all other terms of the exemption shall remain in effect.

(g) ERISA Plans. For recommendations to Retirement Investors regarding Principal Transactions and Riskless Principal Transactions with Plans that are covered by Title I of ERISA, relief under the exemption is conditioned upon the Adviser and Financial Institution complying with certain provisions of Section II, as follows:

(1) Prior to or at the same time as the execution of the Principal Transaction or Riskless Principal Transaction, the Financial Institution provides the Retirement Investor with a written statement of the Financial Institution's and its Advisers' fiduciary status, in accordance with Section II(b).

(2) The Financial Institution and the Adviser comply with the Impartial Conduct Standards of Section II(c).

(3) The Financial Institution adopts policies and procedures incorporating the requirements and prohibitions set forth in Section II(d)(1)-(4), and the Financial Institution and Adviser comply with those requirements and prohibitions.

(4) The Financial Institution provides the disclosures required by Section II(e).

(5) The Financial Institution and Adviser do not in any contract, instrument, or communication purport to disclaim any responsibility or liability for any responsibility, obligation, or duty under Title I of ERISA to the extent the disclaimer would be prohibited by ERISA section 410, waive or qualify the right of the Retirement Investor to bring or participate in a class action or other representative action in court in a dispute with the Adviser or Financial Institution, or require arbitration or mediation of individual claims in locations that are distant or that otherwise unreasonably limit the ability of the Retirement Investors to assert the claims safeguarded by this exemption.

### **Section III--General Conditions**

The Adviser and Financial Institution must satisfy the following conditions to be covered by this exemption:

(a) Debt Security Conditions. Solely with respect to the purchase of a Debt Security by a Plan, participant or beneficiary account, or IRA:

(1) The Debt Security being purchased was not issued by the Financial Institution or any Affiliate;

(2) The Debt Security being purchased is not purchased by the Plan, participant or beneficiary account, or IRA in an underwriting or underwriting syndicate in which the Financial Institution or any Affiliate is an underwriter or a member;

(3) Using information reasonably available to the Adviser at the time of the transaction, the Adviser determines that the Debt Security being purchased:

(i) Possesses no greater than a moderate credit risk; and

(ii) Is sufficiently liquid that the Debt Security could be sold at or near its carrying value within a reasonably short period of time.

(b) Arrangement. The Principal Transaction or Riskless Principal Transaction is not part of an agreement, arrangement, or understanding designed to evade compliance with ERISA or the Code, or to otherwise impact the value of the Principal Traded Asset.

(c) Cash. The purchase or sale of the Principal Traded Asset is for cash.

#### **Section IV--Disclosure Requirements**

This section sets forth the Adviser's and the Financial Institution's disclosure obligations to the Retirement Investor.

(a) Pre-Transaction Disclosure. Prior to or at the same time as the execution of the Principal Transaction or Riskless Principal Transaction, the Adviser or the Financial Institution informs the Retirement Investor, orally or in writing, of the capacity in which the Financial Institution may act with respect to such transaction.

(b) Confirmation. The Adviser or the Financial Institution provides a written confirmation of the Principal Transaction or Riskless Principal Transaction. This requirement may be satisfied by compliance with Rule 10b-10 under the Securities Exchange Act of 1934, or any successor rule in effect at the time of the transaction, or for Advisers and Financial Institutions not subject to the Securities Exchange Act of 1934, similar requirements imposed by another regulator or self-regulatory organization.

(c) Annual Disclosure. The Adviser or the Financial Institution sends to the Retirement Investor, no less frequently than annually, written disclosure in a single disclosure:

(1) A list identifying each Principal Transaction and Riskless Principal Transaction executed in the Retirement Investor's account in reliance on this exemption during the applicable period and the date and price at which the transaction occurred; and

(2) A statement that (i) the consent required pursuant to Section II(e)(2) is terminable at will upon written notice, without penalty to the Plan or IRA, (ii) the right of a Retirement Investor in accordance with Section II(e)(3)(ii) to obtain, free of charge, information about the Principal Traded Asset, including its salient attributes, (iii) model contract disclosures or other model notice of the contractual terms, which are reviewed for accuracy no less frequently than quarterly and updated within 30 days if necessary, are maintained on the Financial Institution's website, and (iv) the Financial Institution's written description of its policies and procedures adopted in accordance with Section II(d) are available free of charge on the Financial Institution's website.

(d) The Financial Institution will not fail to satisfy this Section IV solely because it, acting in good faith and with reasonable diligence, makes an error or omission in disclosing the required information, or if the website is temporarily inaccessible, provided that (i) in the case of an error

or omission on the web, the Financial Institution discloses the correct information as soon as practicable, but not later than 7 days after the date on which it discovers or reasonably should have discovered the error or omission, and (ii) in the case of other disclosures, the Financial Institution discloses the correct information as soon as practicable, but not later than 30 days after the date on which it discovers or reasonably should have discovered the error or omission. To the extent compliance with the disclosure requires Advisers and Financial Institutions to obtain information from entities that are not closely affiliated with them, the exemption provides that they may rely in good faith on information and assurances from the other entities, as long as they do not know that the materials are incomplete or inaccurate. This good faith reliance applies unless the entity providing the information to the Adviser and Financial Institution is (1) a person directly or indirectly through one or more intermediaries, controlling, controlled by, or under common control with the Adviser or Financial Institution; or (2) any officer, director, employee, agent, registered representative, relative (as defined in ERISA section 3(15)), member of family (as defined in Code section 4975(e)(6)) of, or partner in, the Adviser or Financial Institution.

(e) The Financial Institution prepares a written description of its policies and procedures and makes it available on its website and additionally, to Retirement Investors, free of charge, upon request. The description must accurately describe or summarize key components of the policies and procedures relating to conflict-mitigation and incentive practices in a manner that permits Retirement Investors to make an informed judgment about the stringency of the Financial Institution's protections against conflicts of interest. Additionally, Financial Institutions must provide their complete policies and procedures to the Department upon request.

## **Section V--Recordkeeping**

This section establishes record retention and availability requirements that a Financial Institution must meet in order for it to rely on the exemption.

(a) The Financial Institution maintains for a period of six (6) years from the date of each Principal Transaction or Riskless Principal Transaction, in a manner that is reasonably accessible for examination, the records necessary to enable the persons described in Section V(b) to determine whether the conditions of this exemption have been met, except that:

(1) If such records are lost or destroyed, due to circumstances beyond the control of the Financial Institution, then no prohibited transaction will be considered to have occurred solely on the basis of the unavailability of those records; and

(2) No party other than the Financial Institution that is engaging in the Principal Transaction or Riskless Principal Transaction shall be subject to the civil penalty that may be assessed under ERISA section 502(i) or to the taxes imposed by Code sections 4975(a) and (b) if the records are not maintained or are not available for examination as required by Section V(b).

(b) (1) Except as provided in Section V(b)(2) or as precluded by 12 U.S.C. 484, and notwithstanding any provisions of ERISA sections 504(a)(2) and 504(b), the records referred to in Section V(a) are reasonably available at their customary location for examination during normal business hours by:

(i) Any duly authorized employee or representative of the Department or the Internal Revenue Service;

(ii) any fiduciary of the Plan or IRA that was a party to a Principal Transaction or Riskless Principal Transaction described in this exemption, or any duly authorized employee or representative of such fiduciary;

(iii) any employer of participants and beneficiaries and any employee organization whose members are covered by the Plan, or any authorized employee or representative of these entities; and

(iv) any participant or beneficiary of the Plan, or the beneficial owner of an IRA.

(2) None of the persons described in subparagraph (1)(ii) through (iv) are authorized to examine records regarding a Prohibited Transaction involving another Retirement Investor, or trade secrets of the Financial Institution, or commercial or financial information which is privileged or confidential; and

(3) Should the Financial Institution refuse to disclose information on the basis that such information is exempt from disclosure, the Financial Institution must by the close of the thirtieth (30th) day following the request, provide a written notice advising the requestor of the reasons for the refusal and that the Department may request such information.

(4) Failure to maintain the required records necessary to determine whether the conditions of this exemption have been met will result in the loss of the exemption only for the transaction or transactions for which records are missing or have not been maintained. It does not affect the relief for other transactions.

## **Section VI--Definitions**

For purposes of this exemption:

(a) “Adviser” means an individual who:

(1) Is a fiduciary of a Plan or IRA by reason of the provision of investment advice described in ERISA section 3(21)(A)(ii) or Code section 4975(e)(3)(B), or both, and the applicable regulations, with respect to the assets of the Plan or IRA involved in the transaction;

(2) Is an employee, independent contractor, agent, or registered representative of a Financial Institution; and

(3) Satisfies the applicable federal and state regulatory and licensing requirements of banking, and securities laws with respect to the covered transaction.

(b) “Affiliate” of an Adviser or Financial Institution means:

(1) Any person directly or indirectly, through one or more intermediaries, controlling, controlled by, or under common control with the Adviser or Financial Institution. For this purpose, the term “control” means the power to exercise a controlling influence over the management or policies of a person other than an individual;

(2) Any officer, director, partner, employee, or relative (as defined in ERISA section 3(15)) of the Adviser or Financial Institution; or

(3) Any corporation or partnership of which the Adviser or Financial Institution is an officer, director, or partner of the Adviser or Financial Institution.

(c) Investment advice is in the “Best Interest” of the Retirement Investor when the Adviser and Financial Institution providing the advice act with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with



like aims, based on the investment objectives, risk tolerance, financial circumstances, and needs of the Retirement Investor, without regard to the financial or other interests of the Adviser, Financial Institution, any Affiliate or other party.

(d) “Debt Security” means a “debt security” as defined in Rule 10b-10(d)(4) of the Exchange Act that is:

(1) U.S. dollar denominated, issued by a U.S. corporation and offered pursuant to a registration statement under the Securities Act of 1933;

(2) An “Agency Debt Security” as defined in FINRA rule 6710(l) or its successor;

(3) An “Asset Backed Security” as defined in FINRA rule 6710(m) or its successor, that is guaranteed by an Agency as defined in FINRA rule 6710(k) or its successor, or a Government Sponsored Enterprise as defined in FINRA rule 6710(n) or its successor; or

(4) A “U.S. Treasury Security” as defined in FINRA rule 6710(p) or its successor.

(e) “Financial Institution” means the entity that (i) employs the Adviser or otherwise retains such individual as an independent contractor, agent or registered representative, and (ii) customarily purchases or sells Principal Traded Assets for its own account in the ordinary course of its business, and that is:

(1) Registered as an investment adviser under the Investment Advisers Act of 1940 (15 U.S.C. 80b-1 et seq.) or under the laws of the state in which the adviser maintains its principal office and place of business;

(2) A bank or similar financial institution supervised by the United States or state, or a savings association (as defined in section 3(b)(1) of the Federal Deposit Insurance Act (12 U.S.C. 1813(b)(1))); or

(3) A broker or dealer registered under the Securities Exchange Act of 1934 (15 U.S.C. 78a et seq.).

(f) “Independent” means a person that:

(1) Is not the Adviser or Financial Institution or an Affiliate;

(2) Does not receive or is not projected to receive within the current federal income tax year, compensation or other consideration for his or her own account from the Adviser, Financial Institution or an Affiliate in excess of 2% of the person’s annual revenues based upon its prior income tax year; and

(3) Does not have a relationship to or an interest in the Adviser, Financial Institution or an Affiliate that might affect the exercise of the person's best judgment in connection with transactions described in this exemption.

(g) “Individual Retirement Account” or “IRA” means any account or annuity described in Code section 4975(e)(1)(B) through (F), including, for example, an individual retirement account described in Code section 408(a) and a health savings account described in Code section 223(d).

(h) A “Material Conflict of Interest” exists when an Adviser or Financial Institution has a financial interest that a reasonable person would conclude could affect the exercise of its best judgment as a fiduciary in rendering advice to a Retirement Investor.

(i) “Plan” means an employee benefit plan described in ERISA section 3(3) and any plan described in Code section 4975(e)(1)(A).

(j) “Principal Traded Asset” means:

(1) for purposes of a purchase by a Plan, participant or beneficiary account, or IRA,

(i) a Debt Security, as defined in subsection (d) above;

(ii) a certificate of deposit (CD);

(iii) an interest in a Unit Investment Trust, within the meaning of Section 4(2) of the Investment Company Act of 1940, as amended; or

(iv) an investment that is permitted to be purchased under an individual exemption granted by the Department under ERISA section 408(a) and/or Code section 4975(c), after the issuance date of this exemption, that provides relief for investment advice fiduciaries to engage in the purchase of the investment in a Principal Transaction or a Riskless Principal Transaction with a Plan or IRA under the same conditions as this exemption; and

(2) for purposes of a sale by a Plan, participant or beneficiary account, or IRA, securities or other investment property.

(k) “Principal Transaction” means a purchase or sale of a Principal Traded Asset in which an Adviser or Financial Institution is purchasing from or selling to a Plan, participant or beneficiary account, or IRA on behalf of the Financial Institution's own account or the account of a person directly or indirectly, through one or more intermediaries, controlling, controlled by, or under common control with the Financial Institution. For purposes of this definition, a Principal Transaction does not include a Riskless Principal Transaction as defined in Section VI(m).

(l) “Retirement Investor” means:

(1) A fiduciary of a non-participant directed Plan subject to Title I of ERISA or described in Code section 4975(c)(1)(A) with authority to make investment decisions for the Plan;

(2) A participant or beneficiary of a Plan subject to Title I of ERISA or described in Code section 4975(c)(1)(A) with authority to direct the investment of assets in his or her Plan account or to take a distribution; or

(3) The beneficial owner of an IRA acting on behalf of the IRA.

(m) “Riskless Principal Transaction” means a transaction in which a Financial Institution, after having received an order from a Retirement Investor to buy or sell a Principal Traded Asset, purchases or sells the asset for the Financial Institution’s own account to offset the contemporaneous transaction with the Retirement Investor.

## **Section VII--Transition Period for Exemption**

(a) In general. ERISA and the Internal Revenue Code prohibit fiduciary advisers to employee benefit plans (Plans) and individual retirement plans (IRAs) from receiving compensation that varies based on their investment recommendations. ERISA and the Code also prohibit fiduciaries from engaging in securities purchases and sales with Plans or IRAs on behalf of their own accounts (Principal Transactions). This transition period provides relief from the restrictions of ERISA section 406(a)(1)(A) and (D) and section 406(b)(1) and (2), and the taxes imposed by Code section 4975(a) and (b), by reason of Code section 4975(c)(1)(A), (D), and (E) for the period from April 10, 2017, to January 1, 2018 (the Transition Period) for Advisers and Financial

Institutions to engage in certain Principal Transactions and Riskless Principal Transactions with Plans and IRAs subject to the conditions described in Section VII(d).

(b) Covered transactions. This provision permits an Adviser or Financial Institution to engage in the purchase or sale of a Principal Traded Asset in a Principal Transaction or a Riskless Principal Transaction with a Plan, participant or beneficiary account, or IRA, and receive a mark-up, mark-down or other similar payment as applicable to the transaction for themselves or any Affiliate, as a result of the Adviser's and Financial Institution's advice regarding the Principal Transaction or the Riskless Principal Transaction, during the Transition Period.

(c) Exclusions. This provision does not apply if:

(1) The Adviser: (i) has or exercises any discretionary authority or discretionary control respecting management of the assets of the Plan or IRA involved in the transaction or exercises any discretionary authority or control respecting management or the disposition of the assets; or (ii) has any discretionary authority or discretionary responsibility in the administration of the Plan or IRA; or

(2) The Plan is covered by Title I of ERISA, and (i) the Adviser, Financial Institution or any Affiliate is the employer of employees covered by the Plan, or (ii) the Adviser or Financial Institution is a named fiduciary or plan administrator (as defined in ERISA section 3(16)(A)) with respect to the Plan, or an Affiliate thereof, that was selected to provide advice to the Plan by a fiduciary who is not Independent;

(d) Conditions. The provision is subject to the following conditions:

(1) The Financial Institution and Adviser adhere to the following standards:

(i) When providing investment advice to the Retirement Investor regarding the Principal Transaction or Riskless Principal Transaction, the Financial Institution and the

Adviser(s) provide investment advice that is, at the time of the recommendation, in the Best Interest of the Retirement Investor. As further defined in Section VI(c), such advice reflects the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, based on the investment objectives, risk tolerance, financial circumstances, and needs of the Retirement Investor, without regard to the financial or other interests of the Adviser, Financial Institution or any Affiliate or other party;

(ii) The Adviser and Financial Institution will seek to obtain the best execution reasonably available under the circumstances with respect to the Principal Transaction or Riskless Principal Transaction. Financial Institutions that are FINRA members shall satisfy this requirement if they comply with the terms of FINRA rules 2121 (Fair Prices and Commissions) and 5310 (Best Execution and Interpositioning), or any successor rules in effect at the time of the transaction, as interpreted by FINRA, with respect to the Principal Transaction or Riskless Principal Transaction; and

(iii) Statements by the Financial Institution and its Advisers to the Retirement Investor about the Principal Transaction or Riskless Principal Transaction, fees and compensation related to the Principal Transaction or Riskless Principal Transaction, Material Conflicts of Interest, and any other matters relevant to a Retirement Investor's decision to engage in the Principal Transaction or Riskless Principal Transaction, are not materially misleading at the time they are made.

(2) Disclosures. The Financial Institution provides to the Retirement Investor, prior to or at the same time as the execution of the recommended Principal Transaction or Riskless Principal

Transaction, a single written disclosure, which may cover multiple transactions or all transactions occurring within the Transition Period, that clearly and prominently:

(i) Affirmatively states that the Financial Institution and the Adviser(s) act as fiduciaries under ERISA or the Code, or both, with respect to the recommendation;

(ii) Sets forth the standards in paragraph (d)(1) of this section and affirmatively states that it and the Adviser(s) adhered to such standards in recommending the transaction; and

(iii) Discloses the circumstances under which the Adviser and Financial Institution may engage in Principal Transactions and Riskless Principal Transactions with the Plan, participant or beneficiary account, or IRA, and identifies and discloses the Material Conflicts of Interest associated with Principal Transactions and Riskless Principal Transactions.

(iv) The disclosure may be provided in person, electronically or by mail. It does not have to be repeated for any subsequent recommendations during the Transition Period.

(v) The Financial Institution will not fail to satisfy this Section VII(d)(2) solely because it, acting in good faith and with reasonable diligence, makes an error or omission in disclosing the required information, provided the Financial Institution discloses the correct information as soon as practicable, but not later than 30 days after the date on which it discovers or reasonably should have discovered the error or omission. To the extent compliance with this Section VII(d)(2) requires Advisers and Financial Institutions to obtain information from entities that are not closely affiliated with them, they may rely in good faith on information and assurances from the other entities, as long as they do not know, or unless they should have known, that the materials are incomplete or inaccurate. This good faith reliance applies unless the entity providing the information to the Adviser and Financial Institution is (1) a person directly or indirectly through one or more intermediaries, controlling, controlled by, or under common control with the

Adviser or Financial Institution; or (2) any officer, director, employee, agent, registered representative, relative (as defined in ERISA section 3(15)), member of family (as defined in Code section 4975(e)(6)) of, or partner in, the Adviser or Financial Institution.

(3) The Financial Institution must designate a person or persons, identified by name, title or function, responsible for addressing Material Conflicts of Interest and monitoring Advisers' adherence to the Impartial Conduct Standards.

(4) The Financial Institution complies with the recordkeeping requirements of Section V(a) and (b).

Signed at Washington, DC.

---

Phyllis C. Borzi

Assistant Secretary

Employee Benefits Security Administration

U. S. Department of Labor.

**BILLING CODE 4510-29-P**