



225 West Wacker Drive
Chicago
Illinois 60606

Telephone: +1 312 696-6000
Facsimile: +1 312 696-6001

February 20, 2007

By Electronic Mail and UPS Overnight

Ivan Strasfeld, Director
Office of Exemption Determinations
Room N-5700
Department of Labor - Employee Benefits Security Administration
200 Constitution Avenue, N.W.
Washington, DC 20210

RE: Request for Information dated December 12, 2006

Dear Mr. Strasfeld:

We have received your letter dated December 12, 2006 along with a copy of the Request for Information with respect to the Prohibited Transaction Exemption for the Provision of Investment Advice to Individual Retirement and Similar Plans. In particular, the Department of Labor (the "Department") has been charged with determining whether an "eligible investment advice arrangement" as described in Section 601 of the Pension Protection Act could include a computer model designed to provide investment advice programs for beneficiaries of Individual Retirement Accounts ("IRAs"). Please consider this letter as our response to the Department's solicitation of information from Morningstar Associates, LLC ("Morningstar") with respect to the feasibility of applying computer model investment advice programs for IRAs.

As you note, Morningstar uses a computer model and an interactive web based application to offer retirement based investment advice to individuals. Although Morningstar's clients consist primarily of participants in defined contribution plans, Morningstar also provides investment advice to beneficiaries of IRAs. In providing its investment advisory services, Morningstar acts independently of any provider of investment products or services to the IRA beneficiary. Fees payable to Morningstar for its advice recommendations do not vary based on the investment advice provided, and no affiliate of Morningstar receives compensation as a result of the advice recommendation. In Field Assistance Bulletin No. 2007-01, the Department recognizes that investment advisers whose activities do not violate ERISA's prohibited transaction rules are not required to comply with the prohibited transaction exemption set forth in Section 601 of the PPA. Notwithstanding the conclusion of the Department set forth in FAB 2007-01, Morningstar appreciates the opportunity to comment on the Request for Information.

Morningstar's comments correspond to the requests as enumerated in the Request for Information.

1. Morningstar offers investment advice to beneficiaries of IRAs by means of a computer model and an interactive web based application (the "Morningstar Application").

- (a) The Morningstar Application is designed to apply generally accepted theories that take into account the historic returns of different asset classes over defined periods of time.
 - (b) The Morningstar Application utilizes relevant information about the beneficiaries as noted in the Request for Information. The information utilized can include age, life expectancy, risk tolerance, other assets and preferences to certain types of investments.
 - (c) The Morningstar Application is not biased in favor of investments offered by a person with a material affiliation or contractual relationship with Morningstar. Morningstar does not itself offer investments.
 - (d) The range of investment options considered by the Morningstar Application will depend, in part, on the investment alternatives available through the particular IRA product, which Morningstar does not control. Some IRA providers may provide a self-directed option that permits direct investment in specific equities and bonds. The Morningstar Application can take into account a full range of typical IRA investments, particularly mutual funds and similar investments, when determining the investments that may be included in its recommendations for the investment portfolios of IRA beneficiaries.
 - (e) Beneficiaries of the IRA are not required to implement the advice recommendation but may direct the investment of their accounts as they choose. However, IRA beneficiaries cannot change the advice recommendation that is generated, other than by changing the parameters on which the advice is based. A beneficiary may obtain information about a particular investment option through the research and education section of the Morningstar Application or directly from the provider of the IRA product in order to evaluate and select the investment advice recommendation. This information may be accessible electronically or upon request of the provider of the IRA product.
2. Morningstar believes that the Morningstar Application would substantially comply with the criteria listed in Question 1 of the Request for Information. Depending on what the Department is contemplating, Morningstar believes that the “full range of investments” (1(d)) and accessibility of information about a particular investment option (1(e)) criteria may present challenges. Inclusion of the full range of investments would require a significant undertaking to ensure that all investment options are properly and comprehensively analyzed. Also, the range of the investment options might be constrained by the IRA product offering. With respect to the accessibility of information, a process might be implemented to deliver to the beneficiary information about the particular option in a recommendation. For example, a web site hosted by the provider of the IRA

product or the investment adviser could provide such information, or alternatively link to such information.

3. See response number 1 for a description of the Morningstar Application.
4. As noted above, Morningstar understands that IRA product providers generally restrict the “universe” of investment options with respect to an IRA offering.
5. Morningstar analyzes the investment options made available by the IRA product provider and then creates a subset of funds from which it will make its recommendations. Morningstar is responsible for developing the processes used to generate investment recommendations from the investment options that the IRA product provider makes available on its platform. Morningstar is not able to recommend an investment option if the IRA product provider does not make that investment option available through its product. Beneficiaries are able to express a preference to exclude a particular investment option through the Morningstar Application. Assuming that it is a reasonable request (i.e. does not represent a core asset class), Morningstar will attempt to honor this exclusion within the recommendations. Morningstar does not offer an off-the-shelf program for IRA beneficiaries outside of a particular IRA provider program.
6. Morningstar does not maintain accounts on behalf of IRA beneficiaries, and therefore the question is inapplicable.
7. The investment options considered by Morningstar are the investment options offered by the IRA product provider. The information required includes returns, holdings, risk, volatility, and expenses. Such information is obtained on an ongoing basis from the IRA product provider or the institution underwriting the investment option. Information is collected by establishing a data collection process and then integrated into a database. Some information is publicly available, however, Morningstar conducts a quantitative and qualitative analysis of the investment options. The process and results of this analysis are proprietary to Morningstar. We also note that although Morningstar’s analysis may be based on data used by Morningstar, Inc. to determine its proprietary mutual fund star ratings, the advice recommendations generated by the Morningstar Application are not based upon the mutual fund star ratings published by Morningstar, Inc.
8. Field Assistance Bulletin No. 2007-01 recites the standards that a plan sponsor must review when selecting and monitoring an investment adviser fiduciary. Morningstar believes that these standards would be helpful to a third party or the Department when evaluating a computer investment advice program. As noted above, Morningstar does not engage in prohibited transactions for which

Ivan Strasfeld, Director
Office of Exemption Determinations
February 20, 2007
Page 4

exemptive relief would be necessary and does not, at this time have recommendations for the level of oversight necessary.

9. The Morningstar Application is presented to beneficiaries through an interactive web-based application. It is integrated with the IRA product provider's database in order to receive demographic information about the beneficiary and account balances. The Morningstar Application is designed to allow the beneficiary to provide the advice provider with information about other assets, contribution rates, risk tolerance, and exclusions of particular investment options. This information allows a beneficiary to refine the data points relevant to the advice recommendation. As noted above, IRA beneficiaries cannot change the advice recommendation that is generated, other than by changing the parameters on which the advice is based.

Morningstar thanks the Department for allowing it the opportunity to respond to the request for information.

Please do not hesitate to contact the undersigned should you require any further information.

Very truly yours,

Morningstar Associates, LLC

By: 
F. Allen Bliss, Associate General Counsel