

FLOAT REVENUE

Schedule C Reporting and Fiduciary Issues



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Discussion Agenda

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- III. Where is the revenue?
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Overview

Float Revenue

- Time value of money.
- Financial service providers (e.g., banks and trust companies) sometimes place ERISA plan assets in a general account for short periods of time in order to facilitate certain transactions, such as while waiting for investment instructions from the plan's fiduciaries ("transaction float") or in order to make a distribution or other disbursement ("check float").
- Usually done on an omnibus basis but can also be specific to one plan

Float Revenue

What is the “float”?

- Float is the period that begins when the plan money is deposited in the general account, and ends when the investment instructions are executed or the disbursement check clears.

Float Revenue

Where is the revenue?

- During the float period, the money is often invested in conservative, short-term investments.
- In some cases, the plan is credited with earnings on these investments.
- However, more often and in the context of reportable compensation for Schedule C, the financial service provider keeps the earnings as part of its compensation.

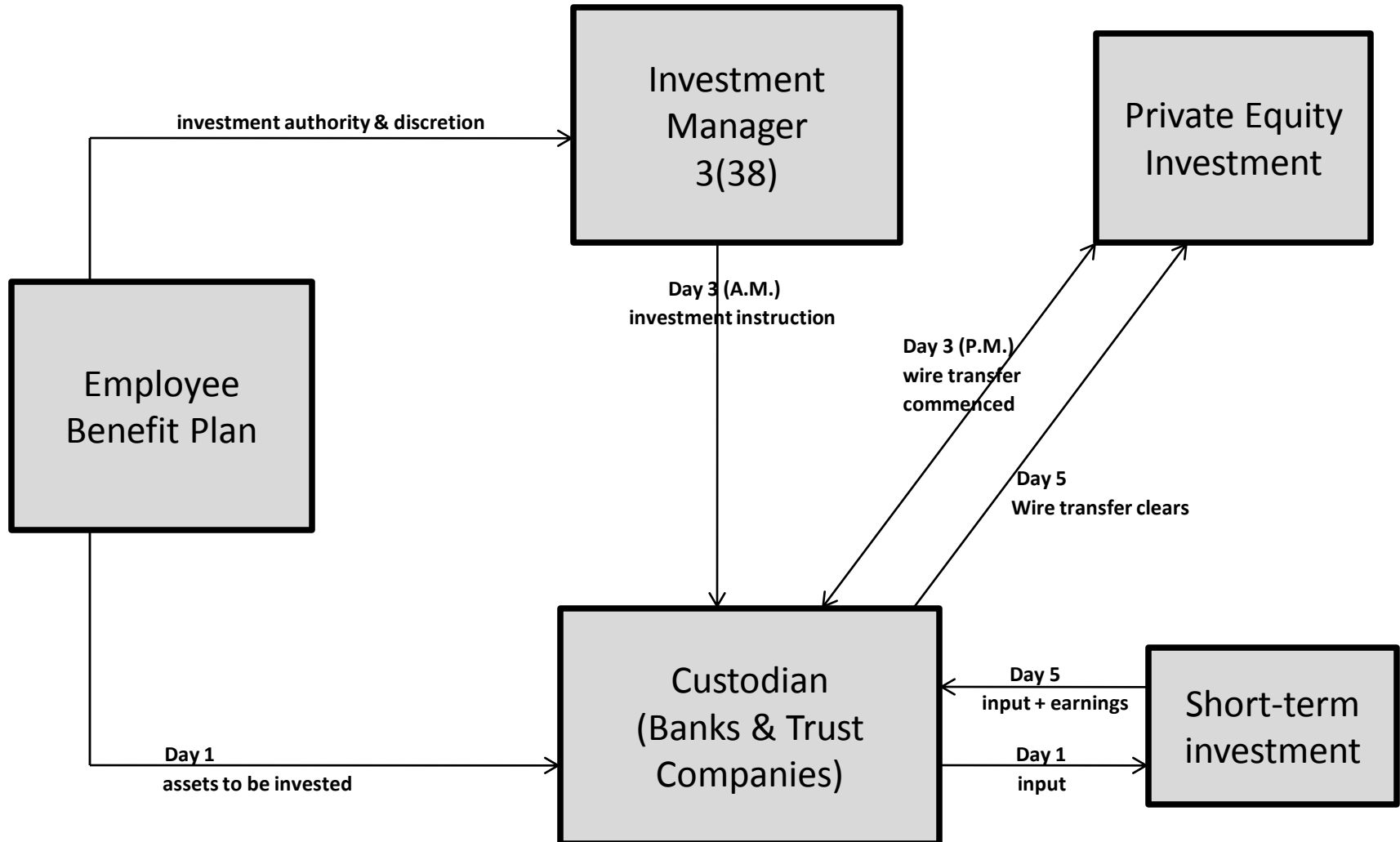
Float Revenue

Transactions that generate float revenue:

- Generally two types:
 - Transaction Float
 - Check Float

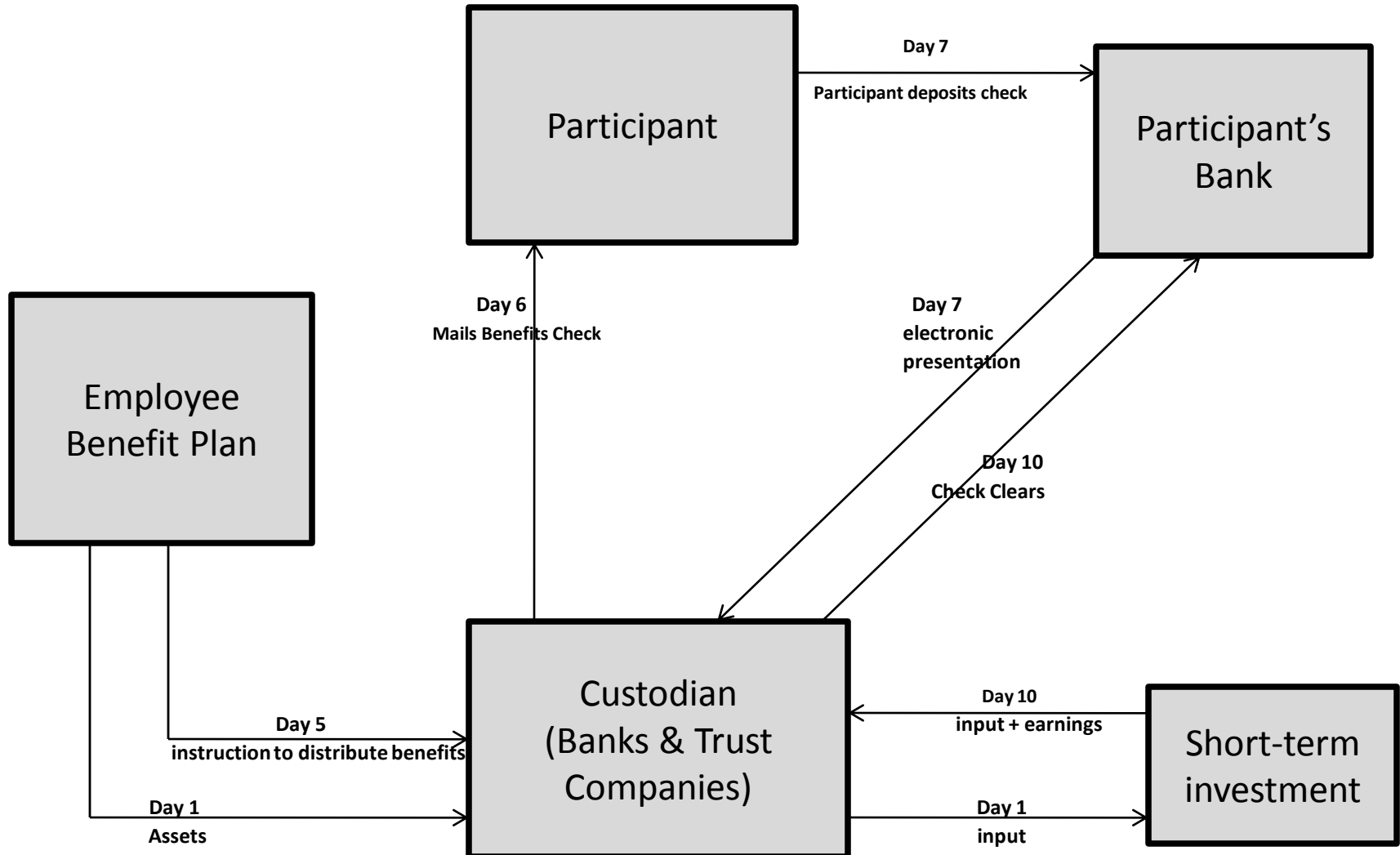
Float Revenue

(Transactional Float)



Float Revenue

(Check Float)



Float Revenue

Fiduciary aspects:

- Regarding Schedule C, “The Department believes that an annual review of such expenses is part of a plan fiduciary’s on-going obligation to monitor service provider arrangements with the plan. The Department intends that reporting this information should emphasize that monitoring obligation.”
- Float should be regarded by plan fiduciaries and service providers as part of the service provider’s compensation for services to the plan. FAB 2002-3
- Impact on:
 - Plan fiduciary and
 - Service Provider

Float Revenue

Responsible fiduciary:

- The plan fiduciary must have an adequate understanding of how the service provider will earn float, and how it contributes to the service providers compensation.
- The selection and monitoring process engaged by the responsible fiduciary should include:
 - A review of comparable service providers and service arrangements (e.g., quality and costs) to determine whether such providers may credit float to provider account
 - A review of the circumstances under which float may be earned by the service provider
 - A review of sufficient information to enable the plan fiduciary to evaluate float as part of the total compensation to be paid for the services to be rendered under the agreement. FAB 2002-3

Float Revenue

Service provider:

- The primary issue is whether the provider has disclosed sufficient information concerning the administration of accounts holding float so that the plan can reasonably approve the arrangement based on the an understanding of the provider's compensation. FAB 2002-3

Float Revenue

- Service provider can avoid self-dealing regarding float by:
 - Disclosing specific circumstances under which float will be earned
 - Regarding transactional float: establish, disclose and adhere to specific time frames within which cash pending investment direction will be invested following direction, as well as any exceptions
 - Regarding check float: disclose when float period commences and ends and disclose and adhere to time frames for mailing and any other admin practice affecting duration of float period
 - Disclosing the rate of the float or the specific manner in which such rate will be determined. FAB 2002-3

Float Revenue

How is float income treated for purpose of Schedule C:

- Float income is specifically listed as a form of indirect compensation for purposes of Schedule C
- Alternative reporting option as eligible indirect compensation is generally available.
- The fact that the float revenue is received as “transactional float” or “check float” on the account of a single plan rather than at an omnibus level would not require it to be treated as direct compensation for Schedule C. DOL FAQs 2009 Schedule C, Q11.

Float Revenue

Eligible Indirect Compensation:

- Eligible indirect compensation is a type of indirect compensation that may be reported using an alternative option provided that (i) the service provider's only compensation in relation to the plan is eligible indirect compensation and (ii) the service provider makes written disclosure to the plan administrator of:
 - the existence of eligible indirect compensation;
 - the services provided for the eligible indirect compensation or the purpose for payment of the eligible indirect compensation;
 - the amount or estimate of the compensation or a description of the formula used to calculate or determine the eligible indirect compensation; and
 - the identity of the party or parties paying and receiving the eligible indirect compensation.

Float Revenue

Interaction of FAB 2002-3 Disclosure and Alternative Reporting Option of Schedule C

- Disclosure of float income sufficient to satisfy the guidance under FAB 2002-3 will generally be sufficient to satisfy the disclosure requirements for the Schedule C alternative reporting option.
- Alternative reporting option: where a service provider that receives only eligible indirect makes required disclosure, instead of having to provide information on the service provider, Schedule C may be satisfied by identifying the person or persons that provided the plan with the required written disclosure.

Questions