

**American Bankers Association**

**Sample Glossary of  
Collective Investment Fund  
Terms for Disclosures to  
Retirement Plan Participants**



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## **SAMPLE GLOSSARY OF COLLECTIVE INVESTMENT FUND TERMS FOR DISCLOSURES TO RETIREMENT PLAN PARTICIPANTS**

This Sample Glossary of Collective Investment Fund Terms for Disclosures to Retirement Plan Participants (“CIF Glossary”) was developed by the American Bankers Association and its member banks as sample “plain English” language that can be used or adopted in complying with the requirement in the Department of Labor regulations (“Rules”) that participant-directed retirement plans provide participants with access to a glossary of investment-related terms to assist participants and beneficiaries in understanding the designated investment alternatives.<sup>1</sup>

The document is organized into two parts. Part 1 contains “frequently asked questions” about collective investment funds (“CIFs”) so that participants can better understand what a CIF is and how it is operated, administered, and regulated. Part 2 lists and defines terms that are commonly used in CIF constituent documents that are provided to participants under the Rules.

The CIF Glossary defines terms that are likely to apply to a wide group of plans and investments but it does not include definitions for every retirement plan and CIF-related term. Certain terms that a plan sponsor may want to include in its glossary because of specific plan investment options and other circumstances may not appear. Moreover, none of the definitions represents the only way to define a particular term. Plans using the CIF Glossary may want to customize or modify the language as they deem appropriate. Using the Glossary for purposes other than its intended purpose may not be appropriate.

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<sup>1</sup> See 29 CFR § 2559.404a-5(d)(1)(vi).

## **PART 1**

### **Frequently Asked Questions (FAQs) About Collective Investment Funds**

Q1: What is a collective investment fund (CIF)?

A1: *A collective investment fund, or CIF, is a trust created and maintained by a bank, savings association, or trust company that commingles assets from multiple clients. The federal securities laws generally require entities that pool securities to register those pooled vehicles (such as mutual funds) with the Securities and Exchange Commission (SEC). Congress, however, created exemptions from these registration requirements for CIFs, as long as the entity offering these funds is a bank, savings association, or trust company and so long as participation in the fund is restricted only to eligible investors specified in the exemption. If these conditions are met, CIFs are exempt from the SEC registration, regulation, and reporting requirements that apply to mutual funds.*

Q2: How are CIFs regulated under banking law?

A2: *For national banks, a CIF must be established under state trust law and must be operated in compliance with specific banking regulations established by the OCC that are published in Title 12 of the Code of Federal Regulations, section 9.18. The OCC has also issued a CIF Handbook (available at [www.occ.treas.gov](http://www.occ.treas.gov)) that explains in greater detail how CIFs are established and sets forth the requirements imposed by the OCC for operating a CIF. The OCC regularly examines collective investment funds for compliance with the section 9.18 regulations as part of the institution's asset management examination. As a general rule, state banks and state trust companies also operate their CIFs in conformity with the requirements of section 9.18 and some states' laws and regulations specifically require that banks and trust companies in those states do so.*

Q3: What other laws apply to CIFs?

A3: *CIFs also are subject to applicable laws and regulations under the Internal Revenue Code and ERISA and to the exemptive provisions of the federal securities laws.*

Q4: Is a CIF like a mutual fund?

A4: *A CIF is similar to a mutual fund in that it is a pooled vehicle for investments, but there are a number of important differences. There are no eligibility barriers or restrictions established by the SEC in order to invest in a mutual fund. However, the mutual fund may require an investor to meet certain eligibility or minimum investment thresholds. By contrast, entry into a CIF is limited to those bank customers who fall within the eligibility criteria set forth in the banking and securities laws. In addition, entry*

*(admission) to and exit (withdrawal) from a CIF may be subject to limitations or restrictions.*

Q5: Is my money insured or guaranteed in a CIF?

A5: *No. Investments in a CIF are neither insured nor guaranteed by the bank, savings association, or trust company offering the fund, by the FDIC, or by any government agency. The investment risk of the funds is 100% borne by the investor, just like in a mutual fund or other investment account.*

Q6: Where do I get information on my CIF?

A6: *Your employee benefit plan administrator or its appointee will have additional information about the CIF, which it will receive from the bank, savings association, or trust company that manages the CIF. For example, a CIF is established and maintained by a bank, savings association, or trust company in accordance with a written plan. The plan contains provisions regarding the operation of the fund including investment powers, fees and expenses, terms for admission and withdrawal, audits, minimum frequency and method of valuation of fund assets, and any other matters necessary to clearly define the rights of participating accounts. This information may be contained in your employer's summary plan description (SPD), which is a summary of the retirement plan of your employer. An audit and an annual financial report are required and available to participants every 12 months.*

Q7: How do I know what securities are owned by my CIF?

A7: *The annual financial report lists all the assets owned by the fund and may be obtained upon request from the administrator of your employee benefit plan that provides the CIF as an investment option.*

## PART 2

### **Collective Investment Fund Terms**

**Admission** – an investment made in one or more units of a *CIF*. Sometimes referred to as a contribution.

**Applicable Law** – the federal or state law governing a bank, savings association, or trust company’s fiduciary or other relationship with the *collective investment fund*, the terms of the document governing a fiduciary relationship, or any court order pertaining to the relationship.

**Asset Allocation** – an investment plan or strategy that attempts to balance risk by apportioning the assets of an investment portfolio to diverse investment classes according to a set of investment goals, risk tolerance, and investment horizon.

**Collective Investment Fund/CIF** – a collective investment fund is a fund that is maintained by a bank, savings association, or trust company in accordance with the regulations issued by the *OCC* or governing state trust law, and is comprised of a pooled group of assets of qualifying trusts or similar accounts. Collective investment funds operated by national banks, federal savings associations, or *OCC* trust companies are regularly examined for compliance by *OCC* staff as part of the institution’s asset management examination; state banks, savings associations, and trust companies are subject to similar examination and oversight by the appropriate state bank regulatory agency. The ownership of a *CIF* is divided into one or more classes of *units* and can only be held by certain qualified investors, such as 401(k) plans. A *Participating Trust* has an ownership interest in all of the assets of the *CIF* but generally does not own a share or interest in any specific asset of the *CIF*.

**Comptroller/OCC** – the Office of the Comptroller of the Currency is the primary federal regulator for national banks and federal savings associations. The *OCC* regulates, supervises, and examines a national bank’s/federal savings association’s collective investment funds

**Conflict of Interest** – conflicts of interest occur when there are competing demands of the interests of a fiduciary, such as a bank, and the interests of its fiduciary customers. As a fiduciary, a bank has two primary duties: loyalty and care. Any situation that would compromise or bias the bank’s primary duty of loyalty to its fiduciary customers would be deemed a conflict of interest, and *Applicable Law* seeks to ensure that the customer’s interests are put first.

**Declaration of Trust/Trust Document** – a written document that creates a trust and sets forth the terms for its management and administration. The trust is managed by an appointed trustee, which for a *CIF* is a bank, savings association, or trust company.

**Defined Benefit Plan** – a plan usually established by an employer that promises to pay covered employees certain dollar amounts upon retirement. Also referred to as a “*DB plan*.”

Defined Contribution Plan – a participant-directed plan usually established by an employer for its employees’ retirement needs. The employee establishes a defined tax-deferred dollar amount that is contributed to the plan out of the employee’s wages and thereafter invested, a certain percentage of which may be matched by the employer. Unlike a DB plan, benefits paid under the plan generally vary according to the investment performance of the assets into which the plan’s dollars are invested. Also referred to as a “DC plan.”

Department of Labor/DOL – the United States Department of Labor is the agency charged with administering and enforcing the provisions of *ERISA*, including supervising pension plans established under *ERISA* as well as the parties involved in the establishment, management, or administration of any such plan.

ERISA – the Employee Retirement Income Security Act of 1974 is the federal law that regulates pension plans, including *Defined Benefit (DB) Plans* and *Defined Contribution (DC) Plans*. Employers that establish pension plans under *ERISA* must meet certain minimum standards regarding the management and administration of the plan and its assets.

Fiduciary Account – an account administered by a bank, savings association, or trust company acting in a fiduciary capacity.

Fiduciary Capacity – the capacity or role of acting as a fiduciary. Examples of fiduciary capacity include a bank acting as a trustee of a trust or as an adviser to an investment management account. Under *ERISA*, a person acting in a fiduciary capacity must discharge all of its duties with respect to a retirement or employee benefit plan “solely in the interest” of the plan’s participants and beneficiaries.

Financial Report – an audited report issued annually by the *CIF*. The financial report discloses the *CIF*’s fees and expenses and contains a list of investments in the fund. The *CIF Trustee* must provide a copy of the financial report to any investor upon request for a reasonable charge.

Group Trust – a tax-deferred arrangement under which qualified retirement plan trusts, individual retirement accounts (IRAs), and certain other tax exempt retirement plans or accounts pool their assets for investment, usually for the purpose of achieving diversification of investments.

Income Security – an investment, such as a bond or debt instrument or certain equity securities, that provides a return in the form of a periodic payment (such as monthly or quarterly) and the return of the principal amount at maturity. Payment from interest earned may be a set amount or a variable amount.

Incremental Revenue – the additional amount of revenue earned as a result of an investment or other revenue-enhancing activity that supplements the original investment.

Investment Adviser or Investment Manager – a person or entity that makes investment recommendations or decisions in exchange for a fee or other compensation. An investment adviser or investment manager who is appointed by another investment adviser or manager to help manage client assets is called a “*Sub-Adviser*”.

Investment Discretion – with respect to a *CIF*, participating trust, or other account, the sole or shared authority (whether or not that authority is exercised) to determine which securities or other assets to purchase or sell on behalf of the *CIF*, *Participating Trust*, or other account. For example, a *CIF* trustee that delegates its authority over investments and a bank that receives delegated authority over investments are both deemed to have investment discretion.

Management Fees – the compensation earned by a *CIF* trustee or agent in exchange for management and other services performed for or on behalf of the *CIF* or participant.

OCC – see “*Comptroller*”.

Participating Trust – a trust that participates or invests in a *CIF*, usually an employer’s 401(k) plan.

Proportionate Interests – the manner by which ownership interests in a *CIF* are divided among *Participating Trusts*. A “proportionate” interest indicates each participating trust’s proportionate or pro rata ownership interest, designated in *units*, in the assets of the *CIF*.

Securities Lending – the practice of loaning a stock or other security to another party (typically to a broker) in exchange for collateral, usually in the form of cash, government securities, or a letter of credit, which is usually invested to earn *Incremental Revenue*. The borrower of the security is obligated to return the security on demand or at the end of an agreed-upon term. Securities lending is an additional service that may be provided by a *CIF* trustee to earn incremental revenue that is shared with the *CIF* and its *Participating Trusts*.

Self-Dealing – an action involving a *Conflict of Interest* in which a professional takes advantage of his position as a fiduciary in a transaction and acts for his own interests rather than for the interests of the trust and its beneficiaries (or of another party to whom the fiduciary owes a duty or obligation).

Short-Term Investment Fund (STIF) – an investment fund that invests in money market instruments of high quality and low risk. STIFs may hold cash, bank notes, corporate notes, Treasury bills, various short-term debt instruments, or any combination thereof. STIFs commonly are used to temporarily place funds while arranging for their transfer to another investment vehicle that has the potential to provide higher investment returns by investing in riskier investments or strategies. STIFs are designed to maintain a constant unit value that does not vary based on the performance of the STIF’s assets.

Sub-Adviser – an *Investment Adviser* or *Investment Manager* who is appointed by another adviser or manager to help provide advice on, or manage, a portion of a client’s assets.

Trustee – the bank, savings association, or trust company that has fiduciary responsibility over the management, administration, and investments of the *CIF*.

Underlying Fund – a fund that is invested in by another fund, such as a *CIF*. For example, another *CIF* or a mutual fund in which a *CIF* invests would be deemed the “underlying fund” when referring to the *CIF*’s assets.

Unit – the term used to refer to a specific legal and beneficial interest owned by a *Participating Trust* investor in a *CIF*, similar to the term “share” when referring to company stock. Units may be divided into different classes to allow for different pricing for different levels of services in a way similar to mutual funds.

Unit Value – the dollar value of a *unit* of a *CIF* as of a particular *Valuation Date*.

Valuation Date – each day on which the dollar value of the *CIF*’s assets, liabilities, and unit values is determined by the *Trustee*. This is equivalent in meaning to the share value of a mutual fund.

Withdrawal – a redemption of one or more units from a *CIF*.

Written Plan – the written document containing provisions by which a *CIF* is governed. A written plan typically includes a description of the roles of the parties (namely the *Trustee*), investment powers, fees and expenses, terms for admission to and withdrawal from the *CIF*, audits, minimum frequency and method of valuations of fund assets, and any other matters that may define the rights of the participating accounts or duties and responsibilities of the trustee.