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Federated

WORLD-CLASS INVESTMENT MANAGER[®]

February 12, 2007

Ivan L. Strasfeld, Director
Office of Exemption Determinations
Employee Benefits Security Administration
U.S. Department of Labor
Washington, DC 20210

Re: Request for Information / Computer model investment advice programs for IRAs

Dear Director Strasfeld:

This letter will respond to the Request for Information which you directed to J. Christopher Donahue, President and Chief Executive Officer of Federated Investors, Inc., dated December 12, 2006. This response is submitted by Federated Investors, Inc. ("Federated"), on its own behalf and on behalf of its subsidiaries and affiliates (the "Federated Companies"). Federated greatly appreciates the opportunity to comment on this issue.

Federated is a holding company for subsidiary companies that provide investment advisory, distribution, and administrative services to more than [insert number] open-end investment companies or mutual funds (the "Federated Funds"). In almost all cases, shares of Federated Funds are sold through financial intermediaries, such as registered broker-dealers or banks, or to institutional investors; the Federated Companies rarely sell share directly to individual investors or to Individual Retirement Accounts (IRAs) opened directly with a Federated Company.

To the extent that shares of Federated Funds are held in IRAs, the IRAs are established, sponsored, and held in custody by financial intermediaries not affiliated with Federated. The Federated Companies do not provide investment advisory services directly to any individuals who maintain IRAs with financial intermediaries. However, the Federated Companies do provide certain tools and services to financial intermediaries that the intermediaries may use in servicing their clients' IRAs; among these is at least one computer model investment advisory program that may be used in connection with IRAs. (Since these tools and services are typically made available to all financial intermediaries through Federated's website, it is not possible for the Federated Companies to know with any degree of certainty whether or not such tools and services—including the computer model investment advisory program—are used by the intermediaries in connection with IRAs.)

Given these facts, the Federated Companies have limited direct knowledge of the tools and service being provided directly to investors who maintain IRAs. Nonetheless, Federated respectfully desires to cooperate with the Office of Exemption Determinations by providing what information it does have on the matter under review. Following please find (in bold type) the questions posed in the Request for Information, as published in Volume 71 of the Federated Register, commencing on page 70428 (December 4, 2006), followed in each case by Federated's response:

- 1. Are there computer model investment advice programs for the current year and preceding year that are, or may be, utilized to provide investment advice to beneficiaries of plans described in section 4975(e)(1)(B)–(F) (and so much of subparagraph (G) as relates to such subparagraphs) (hereinafter "IRA") of the Code which:**

- (a) Apply generally accepted investment theories that take into account the historic returns of different asset classes over defined periods of time;**
- (b) Utilize relevant information about the beneficiary, which may include age, life expectancy, retirement age, risk tolerance, other assets or sources of income, and preferences as to certain types of investments;**
- (c) Operate in a manner that is not biased in favor of investments offered by the fiduciary adviser or a person with a material affiliation or contractual relationship with the fiduciary adviser;**
- (d) Take into account the full range of investments, including equities and bonds, in determining the options for the investment portfolios of the beneficiary; and**
- (e) Allow the beneficiary, in directing the investment, sufficient flexibility in obtaining advice to evaluate and select investment options.**

Response:

The Federated Companies are not aware of any computer model investment advice programs that specifically address each of the five criteria stated in the question.

The Federated Companies make available to its intermediary customers a computer model investment advice program originally developed by Ibbotson Associates and now maintained by the Federated Companies, familiarly referred to as the "Prism Program," that apparently meets certain of the criteria. However, the Prism Program clearly does not meet criteria (c) or (d), in that it offers solely Federated Funds as investment solutions.

The Federated Companies are generally aware that certain other computer model investment advice programs are currently in use which are also believed to meet criteria (a) and (b). However, the Federated Companies are not aware of any programs that have the ability to meet criteria (c), (d), and (e).

- 2. If currently available computer models do not satisfy all of the criteria described above, which criteria are presently not considered by such computer models? Would it be possible to develop a model that satisfies all of the specified criteria? Which criteria would pose difficulties to developers and why?**

Response:

The Federated Companies have no knowledge regarding the answers to these questions and have no basis from which to speculate on the answers.

- 3. If there are any currently available computer model investment advice programs meeting the criteria described in Question 1 that may be utilized for providing investment advice to IRA beneficiaries, please provide a complete description of such programs and the extent to which they are available to IRA beneficiaries.**

Response:

As stated above in response to Question 1, the Federated Companies are not aware of any computer model investment advice programs that meet all of the criteria set forth in Question 1.

- 4. With respect to any programs described in response to Question 3, do any of such programs permit the IRA beneficiary to invest IRA assets in virtually any investment? If not, what are the difficulties, if any, in creating such a model?**

Response:

Since the Federated Companies are not aware of any programs that satisfy Question 3, they have no information to provide in response to this Question 4..

- 5. If computer model investment advice programs are not currently available to IRA beneficiaries that permit the investment of IRA assets in virtually any investment, are there computer model investment advice programs currently available to IRA beneficiaries that, by design or operation, limit the investments modeled by the computer program to a subset of the investment universe? If so, who is responsible for the development of such investment limitations and how are the limitations developed? Is there any flexibility on the part of an IRA beneficiary to modify the computer model to take into account his or her preferences? Are such computer model investment advice programs available to the beneficiaries of IRAs that are not maintained by the persons offering such programs?**

Response:

The Federated Companies believe that there are computer model investment advice programs currently in existence that, by design or operation, limit the investment modeled by the computer program to a subset of the investment universe; we do not know whether these programs are available to IRA beneficiaries. The Prism Program described in our response to Question 1, above, limit the investments modeled by the Program to a subset of the investment universe consisting solely of Federated Funds. The Federated Companies are responsible for the imposition of this investment limitation; the limitation was invoked to demonstrate to intermediaries and their investor customers how assets could be allocated among Federated Funds. There is no flexibility in the Prism Program as offered by Federated to modify the Program so as to take into account an IRA beneficiary's preferences for investments other than Federated Funds. The Prism Program is made available by the Federated Companies to their financial intermediary customer; it is possible, but probably unlikely, that those intermediaries make the Program available to IRA beneficiaries that do not invest in Federated Funds.

- 6. If you offer a computer model investment advice program based on nonproprietary investment products, do you make the program available to investment accounts maintained by you on behalf of IRA beneficiaries?**

Response:

The Federated Companies offer a general computer model investment advice program, the Prism Program, as described above in the response to Question 1. The Prism Program offers solely Federated Funds as an investment universe for its users.

- 7. What are the investment options considered by computer investment advice programs? What information on such options is needed? How is the information obtained and made part of the programs? Is the information publicly available or available to IRA beneficiaries?**

Response:

The Prism Program offers solely Federated Funds as an investment option. Information on the Federated Funds is publicly available through regulatory filings and other information available on the Federated website and in sales literature made available by the Federated Companies. This information is not specifically made available to IRA beneficiaries, but they may consult the public sources mentioned above.

- 8. How should the Department or a third party evaluate a computer model investment advice program to determine whether a program satisfies the criteria described in Question 1 or any other similar criteria established to evaluate such programs?**

Response:

Beyond the suggestion that factors such as current fees and historical performance data with respect to investment options be taken into account, the Federated Companies cannot provide practical information on the evaluation of computer model investment advice programs. However, the Federated Companies believe that, given the great mass of data necessary to analyze “the full range of investments,” it is unlikely that a computer model investment program which satisfies the criteria will be developed in the foreseeable future.

- 9. How do computer model investment advice programs present advice to IRA beneficiaries? How do such programs allow beneficiaries to refine, amend or override provided advice?**

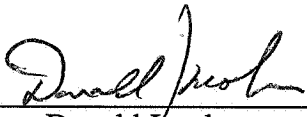
Response:

As state previously, the Prism Program is made available by the Federated Companies to Federated’s financial intermediary customers. To the extent that the Program is used to make investment advice available to IRA beneficiaries, such advice would be presented by those intermediaries, who are typically investment professionals. The Prism Program does not permit users to refine, amend or override suggested asset allocations without adjusting the investment criteria upon which such allocations are based. As to other computer model investment advice programs, the Federated Companies do not have sufficient information upon which to base a further answer to this Question.

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Federated and the Federated Companies appreciate this opportunity to participate in the survey by the Office for Exemption Determinations. Any additional questions should be directed to the undersigned.

Very truly yours,
FEDERATED INVESTORS, INC.

By: 
Donald Jacobson

Title: Director, Product Development