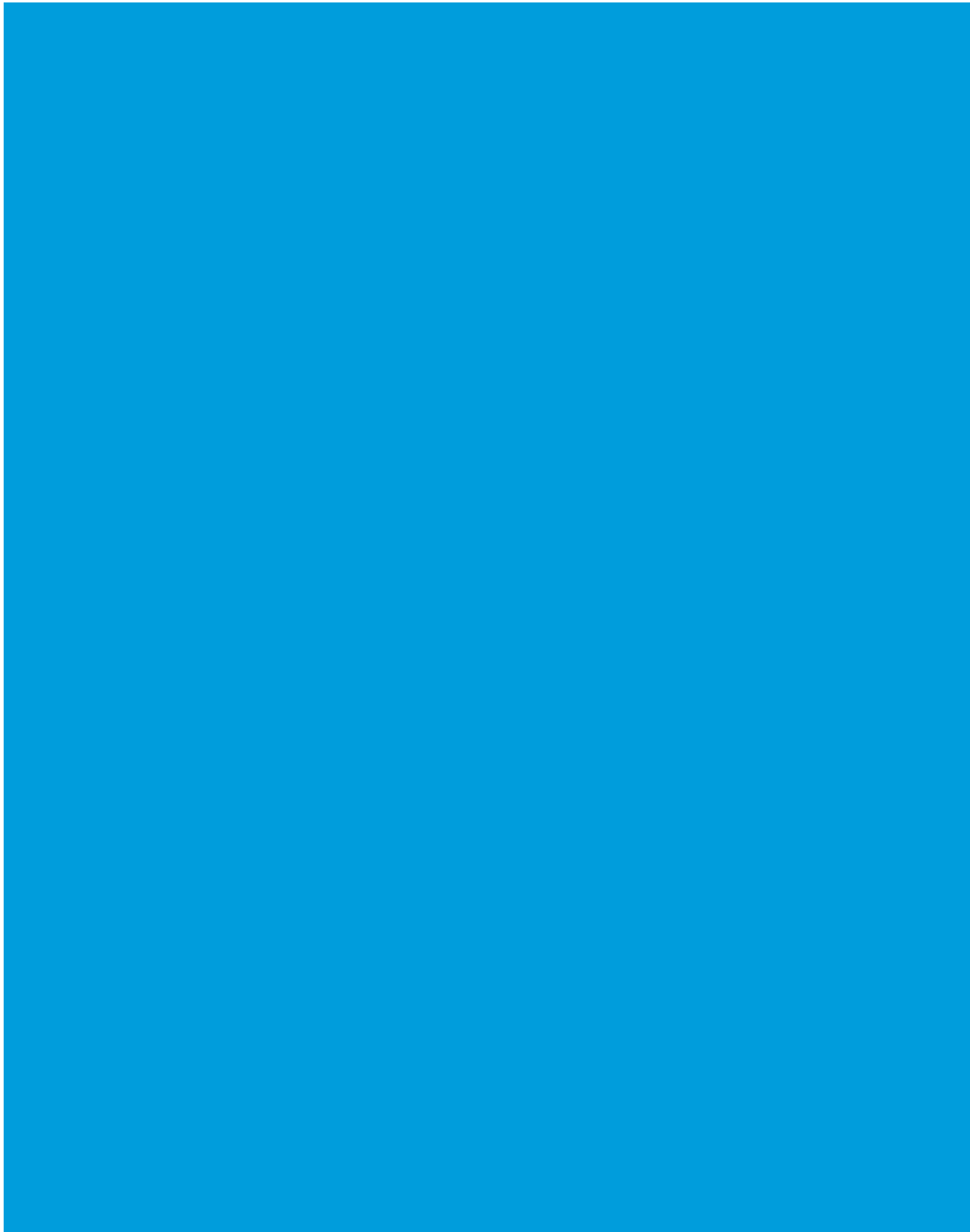


# Reporting practices of fund chief compliance officers\*

An investment management industry survey



\*connectedthinking



August 2006

To Our Clients and Friends in the US Fund Industry:

PricewaterhouseCoopers LLP is pleased to present the results of its Survey of Reporting Practices of Fund Chief Compliance Officers relating to Securities and Exchange Commission Rule 38a-1 under the Investment Company Act of 1940 (Rule or Rule 38a-1).

The Rule, which was adopted by the Securities and Exchange Commission (SEC) in December 2003, requires, in part, each registered investment company (fund) to adopt and implement written policies and procedures reasonably designed to prevent violations of specified federal securities laws. The Rule further requires that fund chief compliance officers provide, at least annually, a written report to the fund's board of directors addressing specific aspects of the fund's compliance program.

This Survey provides a view of practices that were undertaken recently within the US fund industry to implement the Rule's provision pertaining to annual reports as well as other related information. We undertook the Survey to assist the US fund industry in understanding some of the practices used in the first annual reports as well as to provide a baseline as a means to kick off "Year 2" discussions toward the objectives of continuously enhancing annual (and interim) reports and increasing their usefulness to fund directors. As well, we hope that a sustained focus on these reports will contribute to or reinforce fund organizations' cultures of compliance.

Comments or questions concerning the Survey may be directed to Richard N. Murphy, Partner, Compliance Controls Leader—US Investment Management Practice at 617-530-5174 or [richard.n.murphy@us.pwc.com](mailto:richard.n.murphy@us.pwc.com); Kevin W. O'Connell, Principal, US Investment Management Practice at 617-530-7785 or [kevin.w.oconnell@us.pwc.com](mailto:kevin.w.oconnell@us.pwc.com); or Nicholas D'Angelo, Director, US Investment Management Practice at 617-530-7319 or [nicholas.dangelo@us.pwc.com](mailto:nicholas.dangelo@us.pwc.com).

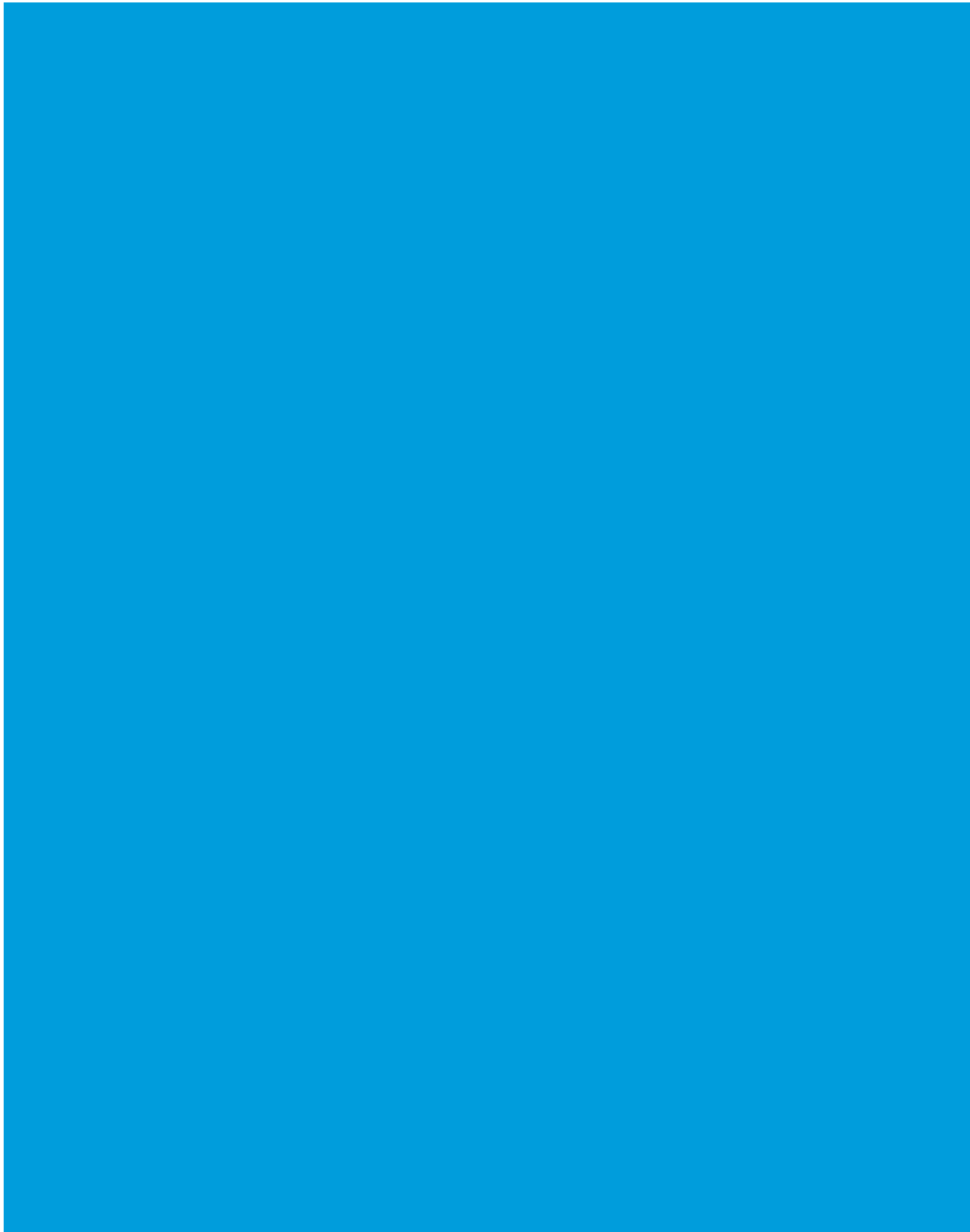
We hope that the US fund industry benefits from this Survey.

PricewaterhouseCoopers LLP



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# section 1

## Background information about the survey

This Survey of Reporting Practices of Fund Chief Compliance Officers presents practices used by chief compliance officers in preparing, providing and discussing their first annual reports with fund boards of directors. In addition, the Survey provides other related information about the implementation by funds of Rule 38a-1.

## Annual report provision of Rule 38a-1

Rule 38a-1: Compliance Programs of Investment Companies required that, by no later than June 4, 2006, fund chief compliance officers provide fund boards of directors their first written annual report concerning their administration of fund compliance programs. This report, at a minimum, was required to address:

- the operation of the policies and procedures of the fund and each of its service providers (as defined in the Rule), any material changes made to those policies and procedures [since the date of the last report], and any material changes to the policies and procedures recommended as a result of the annual review conducted pursuant to the Rule; and
- each material compliance matter, as defined in the Rule, that occurred [since the date of the last report].

## Survey coverage

During May and June 2006, PwC extended invitations to a number of fund chief compliance officers (CCOs) to participate in the Survey. CCOs who elected to participate were provided a web-based survey instrument for reporting their responses to questions.

This Survey provides information reported by 48 CCOs representing fund families as shown below:

### Fund families represented in the survey

No. of CCOs	Assets Under Management <sup>1</sup>	Percentage
14	Greater than \$100 billion	29
14	\$25 - \$100 billion	29
18	\$1 - \$25 billion	38
2	Less than \$1 billion	4
48	-	100

No. of CCOs	No. of Sponsored Funds or Portfolios <sup>1</sup>	Percentage
11	Greater than 100	23
7	76 - 100	14
8	51 - 75	17
9	25 - 50	19
13	Less than 25	27
48	-	100

<sup>1</sup> As of December 31, 2005

## Survey presentation

This Survey has been prepared to provide general information on matters of interest only, and does not constitute professional or legal advice nor an assessment of the US fund industry's or any fund's compliance with the provisions of Rule 38a-1. Funds and their sponsoring organizations are encouraged to consult with legal counsel concerning their responsibilities under and compliance with Rule 38a-1.

In view of differences in operations among fund families, each fund organization should determine the compliance reporting practices best suited for its circumstances; accordingly, the practices presented in this Survey should not be construed as preferred fund industry practices nor as a recommendation to adopt and implement them.

The information presented in the Survey is based upon responses provided by CCOs to questions in the survey questionnaire. Survey responses have not been verified, validated or audited by PricewaterhouseCoopers LLP. Accordingly, while PricewaterhouseCoopers LLP used reasonable measures in the compilation and presentation of information contained in the Survey, no representation or warranty (express or implied) is given by PricewaterhouseCoopers LLP as to the completeness or accuracy of such information.

PricewaterhouseCoopers LLP, its partners, employees and agents accept no liability, and disclaim all responsibility, for the consequences of any party acting, or refraining to act, in reliance on the information contained in this Survey, for any decision based on it, or for the sufficiency of the Survey for any purpose.

# section 2

## Survey highlights

## Attainment of SEC objectives underlying Rule 38a-1

The SEC's Release adopting Rule 38a-1 stated that its provisions were designed to foster, among other things, improved compliance by clarifying the compliance obligations of fund management and to strengthen the hand of fund boards and compliance personnel when dealing with them. The Survey questionnaire asked CCOs to assess the extent to which they believe these objectives have been met to date through implementation of the Rule. Seventy-seven percent of CCOs reported that these objectives have been either fully met (21 percent) or significantly met (56 percent) to date.

## Focus areas of annual reviews

CCOs identified fund and service provider operations that received, on a relative basis, greater attention during the funds' annual reviews. Portfolio management and trading was the most frequently cited area – specifically, the oversight of code of ethics/personal trading/insider trading activities; best execution, allocation and soft dollar practices; compliance with portfolio guidelines; and oversight of subadvisers. Additionally, several CCOs reported focusing on trade operations more generally, including order entry and error correction activities. Other frequently cited focus areas of annual reviews included: (i) frequent/late shareholder trading; (ii) anti-money laundering; (iii) portfolio pricing/valuation; (iv) conflicts of interest/affiliate transactions; (v) service provider compliance activities; (vi) sales literature/advertising; (vii) oversight of intermediaries; and (viii) business recovery/continuity. Appendix A to this publication provides a listing of some of the other focus areas – cited on a less frequent basis – identified by CCOs.

Several CCOs noted specific challenges in undertaking the funds' annual reviews including gathering and reviewing volumes of information, determining which policies and procedures to test (and how much to test), managing resources to complete testing activities on a timely basis, and providing oversight of service providers' evaluation processes.

## Development of annual reports

Rule 38a-1 sets forth the minimum information that each annual report should incorporate or address – namely, (i) the operation of the fund's and its service providers' policies and procedures; (ii) any material changes made to those policies and procedures or otherwise recommended as a result of the annual review; and (iii) any material compliance matters that occurred. In addition to these specific provisions, SEC staff periodically provided subsequent to the Rule's adoption some guidance or observations about the development of annual reports at fund industry conferences or CCO roundtables.

Nevertheless, during the period leading up to the delivery of the first annual reports to fund boards of directors, a number of funds and CCOs remained uncertain about aspects of the development of these annual reports. The Survey results confirmed that, for a majority of the participating CCOs, the most significant challenge(s) faced in preparing the annual report related to defining its form and content, identifying and then meeting user expectations (specifically fund directors and regulators), achieving an effective balance of providing on-top and detail information, and/or establishing a reporting framework that effectively communicates information and, from which, analysis can be performed.

## Subject matters presented in the annual report

Seventy-five percent or more of CCOs noted inclusion in their annual reports of the following subject matters or areas:

### Background

- A description of how the fund's compliance program is administered: organization, resources, roles and responsibilities

### Monitoring and testing

- Identification of areas for which monitoring and testing activities were conducted as part of the annual review
- Summary of test results
- Description of the nature and extent of monitoring and testing activities
- Remediation plans for addressing any exceptions or weaknesses identified
- Copies or reference to third-party service provider compliance program results
- Copies or reference to third-party service provider compliance certifications

### Risk assessments

- Identification of all of the fund's risks or its significant risks

### Other assessments

- Assessment of the fund's and its service providers' compliance culture
- Results of any regulatory inspections pertaining to the fund and/or its investment adviser/manager

### Looking ahead

- Future compliance program initiatives

In addition, 85 percent of CCOs reported that, in addition to any material compliance matter(s), information about other errors, exceptions, weaknesses, or violations pertaining to federal securities laws or compliance policies and procedures were included in the funds' annual reports. Also, when this other information was included, 76 percent of CCOs reported that a distinction between "material compliance matters" and those "other matters" was made in the annual reports.

Further, 71 percent of CCOs reported changes to compliance policies and procedures were made and addressed in the fund's annual reports and 60 percent of CCOs reported recommendations for material changes to compliance policies and procedures were addressed in annual reports.

## Presentation and review of annual reports

Seventy-three percent of CCOs indicated they discussed the fund's annual report with all affiliated and independent members of the fund's board of directors, and the remaining CCOs reported having discussed the annual reports with a subgroup of directors. Eighty-three percent of CCOs reported that an executive session was held with independent directors in connection with such discussion.

A majority of CCOs reported that directors' counsel (93 percent), adviser in-house counsel (85 percent), fund counsel (83 percent), and adviser management (70 percent) also participated in or were otherwise present for the discussion of the funds' annual reports.

## Use of interim reports

Seventy-nine percent of the CCOs noted that, in addition to the annual report, they had previously provided the fund's board of directors (or members thereof) one or more written interim report(s) in respect of the fund's compliance program. When done, the majority of CCOs reported providing 4 to 6 interim reports and including in the annual report a summary or selected elements of the information contained in the interim reports.

## Looking ahead at compliance programs

Seventy-five percent of CCOs indicated they expect to make important changes to the fund's compliance program over the next 12 months, the most frequently cited changes being: (i) developing new system applications or enhancing existing applications (identified by 33 percent of those CCOs who indicated they expect to make important changes to the compliance programs); (ii) developing new or modifying existing approaches to compliance testing activities (31 percent); (iii) hiring additional personnel (19 percent); and (iv) increasing the focus on forensic testing (11 percent).

Exhibits 1 through 19 in Section 3 hereunder present additional information about the Survey results

# section 3

## Survey details

The Exhibits presented in Section 3 include information about the number of CCOs providing responses to the corresponding Survey question or its components. In some instances, the number of respondents is less than 48 (the number of CCOs participating in the Survey) as some Survey questions were either not applicable to a fund family's circumstances or information was not provided.

## Attainment of SEC objectives

### EXHIBIT 1 Extent to which SEC objectives underlying Rule 38a-1 have been met to date

The SEC's Release adopting Rule 38a-1 stated that its provisions were designed to foster, among other things, improved compliance by clarifying the compliance obligations of fund management and to strengthen the hand of fund boards and compliance personnel when dealing with them. The Survey questionnaire asked CCOs to assess the extent to which they believe these objectives have been met to date through implementation of the Rule.

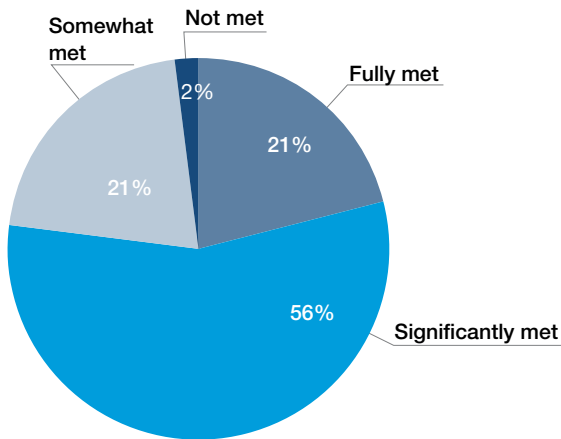
As shown in Exhibit 1 below, 77 percent of the CCOs reported that the aforementioned objectives underlying Rule 38a-1 have been fully or significantly met to date. Several CCOs expanded upon their responses and identified some perceived benefits arising from the Rule including, among others:

- Fund boards have a better understanding of the overall compliance programs (and, in some cases, their complexities),
- CCO empowerment and status have increased,

- The compliance function has greater visibility,
- A broader and deeper focus has been applied to compliance matters, and
- More formality and discipline over compliance activities exists – helping to keep policies and procedures current.

Several CCOs noted that the Rule did not substantially alter their existing compliance activities or compliance cultures except generally to either formalize relationships or provide a mechanism for enhanced documentation (with accompanying increased costs).

### Extent to which SEC objectives underlying Rule 38a-1 have been met to date



Number of respondents = 48

## Development of annual reports

### EXHIBIT 2 Parties, in addition to CCOs, having influence over the development of the annual report's framework

CCOs were asked to rank, beyond their own influence, other parties' relative influence over the development of the annual report's framework (not the writing thereof, but rather determining the areas and subjects to be included in the annual report; the length of the annual report; the use of an executive summary, if any; the use of exhibits or appendices, if any; etc). Exhibit 2 presents the percentage of CCOs who reported the relative influence of each listed party over the development of the annual report's framework as shown.

In addition to those parties presented in Exhibit 2, five CCOs identified other persons as the party or one of the parties having, relatively, the most influence over the development of their annual report's framework, including two CCOs who identified other fund CCOs.

Other parties' influence over the development of the annual report's framework	Total number of CCO respondents	Relative influence		
		Most	Some	None
Fund board	47	32%	45%	23%
Fund counsel	47	30%	36%	34%
Directors' counsel	44	29%	48%	23%
Adviser CCO	23	26%	48%	26%
Advisor in-house counsel	41	24%	44%	32%
Adviser management	47	13%	42%	45%
Third-party advisers or consultants	32	6%	34%	60%
Internal audit	37	0%	27%	73%

**Note 1:** As CCOs were permitted to identify one or more of the parties listed above as having the same relative influence over the development of the annual report's framework, the percentages shown above in respect of each descriptor of relative influence (i.e., most, some, and none), if aggregated, exceed 100 percent.

**Note 2:** As the Survey questionnaire did not ask CCOs whether directors' counsel and fund counsel were the same party, the Survey results are presented in a manner without distinction as to the commonality or difference between these parties. Also, results shown in respect of Adviser CCOs relate to Adviser CCOs who are not also the Fund CCO.

### EXHIBIT 3 Parties who reviewed and commented upon a draft copy of the annual report

Exhibit 3 presents the percentage of CCOs who reported that the party shown reviewed and commented upon a draft copy of the annual report prior to the submission of the final annual report to the fund's board of directors.

Parties who reviewed and commented upon a draft copy of the annual report	Number of affirmative responses	Total number of CCO respondents	Percentage of CCOs
Adviser in-house counsel	30	41	73%
Adviser CCO	16	23	70%
Fund counsel	31	47	66%
Directors' counsel	28	44	64%
Fund board (or individual director(s) thereof)	21	46	46%
Adviser management	20	47	43%
Third-party advisers or consultants	4	37	11%
Internal audit	4	37	11%
Other	1	1	-

**Note:** As the Survey questionnaire did not ask CCOs whether directors' counsel and fund counsel were the same party, the Survey results are presented in a manner without distinction as to the commonality or difference between these parties. Also, results shown in respect of Adviser CCOs relate to Adviser CCOs who are not also the Fund CCO.

## Content of annual reports

### EXHIBIT 4 Subject matters presented in the annual report

Exhibit 4 presents the percentage of CCOs who reported presenting the subject matter shown, in addition to the matters required by Rule 38a-1, in the annual report (including any accompanying supplementary materials).

Subject matters presented in the annual report	Percentage of CCOs
<b>Background</b>	
Description of how the fund's compliance program is administered: organization, resources, roles and responsibilities	96%
<b>Risk assessment<sup>1</sup></b>	
<b>Monitoring and testing</b>	
Identification of areas for which monitoring and testing activities were conducted as part of the annual review	98%
Summary of test results	90%
Description of the nature and extent of monitoring and testing activities undertaken	85%
Results of adviser/subadviser CCO annual reviews (SEC Rule 206(4)-7)	65%
Description of forensic testing activities undertaken	60%
Detail test results for each area reviewed	19%
<b>Other assessments</b>	
Assessment of the fund's and its service providers' compliance culture	75%
Assessment of the sufficiency of the fund's compliance resources (e.g., people, systems, budget)	65%
Assessment of degree of achievement of the fund's compliance program objectives for the period	52%
<b>Looking ahead</b>	
Future compliance program initiatives	75%
Regulatory developments (e.g., SEC recently proposed or adopted rulemaking)	46%
Scope for next year's annual review	38%

Number of respondents = 48

<sup>1</sup> CCOs were permitted to select one or more of three descriptions provided in the Survey questionnaire as representative of their presentation of the risk assessment area in the fund's annual report. Forty of forty-eight CCOs (83 percent) selected one or more of the three descriptions shown below. Three of these CCOs (6 percent) selected two of the three descriptions shown below. The percentage shown for each description represents the percentage of CCOs who selected that description.

Identification of the fund's significant risks (presented without relative rankings)	50%
Identification of the fund's significant risks (presented with relative rankings)	25%
Identification of all of the fund's risks without distinction of their relative significance to the fund	14%

## EXHIBIT 5 Additional subject matters presented in the annual report

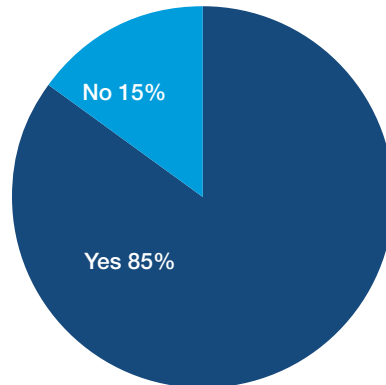
Exhibit 5 presents the percentage of CCOs who reported that the subject matter shown is included or addressed in the annual report (including any accompanying supplementary materials). If a CCO indicated that the subject matter was not applicable to the investment companies' circumstances, the number of corresponding respondents shown excludes such CCO.

Additional subject matters in the annual report	Number of affirmative responses	Total number of CCO respondents	Percentage of CCOs
Remediation plans for addressing any exceptions or weaknesses identified	37	40	93%
Copies or reference to third-party service provider compliance certifications	40	45	89%
Copies or reference to third-party service provider compliance program results	40	45	89%
Results of any regulatory inspections pertaining to the fund and/or its investment adviser/manager	27	34	79%
Results of any regulatory inspections pertaining to the fund's other service providers (i.e., underwriter, administrator, or transfer agent)	23	35	66%
Independent accountant's report (examination or agreed-upon procedures) on compliance controls	21	37	57%

## Content of annual reports (continued)

### EXHIBIT 6 Inclusion of “non-material” compliance matters in the annual report

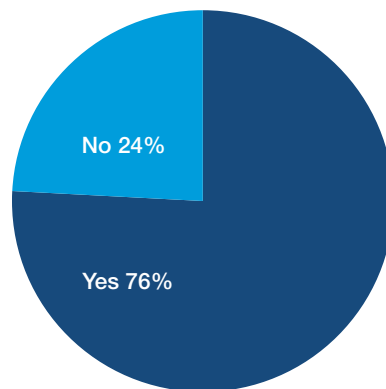
Exhibit 6 presents the percentage of CCOs who reported, in addition to including any material compliance matter(s) in the annual report as required by Rule 38a-1, whether or not they included information about other errors, exceptions, weaknesses or violations pertaining to federal securities laws or compliance policies and procedures.



Number of respondents = 48

### EXHIBIT 7 Distinguishing “material” and “non-material” compliance matters in the annual report

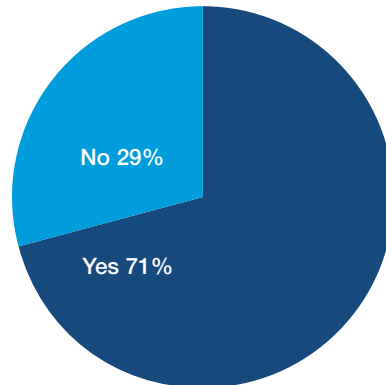
Exhibit 7 presents the percentage of CCOs who reported whether or not a distinction was made between “material compliance matters” and “other matters” in the annual report.



Number of respondents = 41

## EXHIBIT 8 Material changes made to compliance policies and procedures and addressed in the annual report

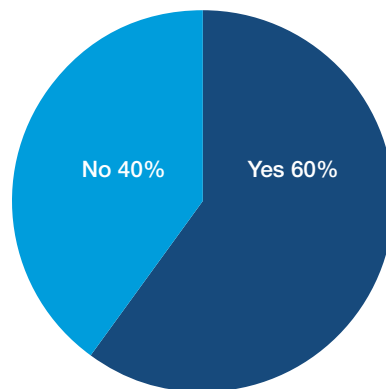
Rule 38a-1 requires that the annual report address, among other areas, any material changes made to the fund's and its service providers' compliance policies and procedures since the date of the last report. Exhibit 8 presents the percentage of CCOs who reported whether or not material changes to compliance policies and procedures were made and addressed in the annual report.



Number of respondents = 48

## EXHIBIT 9 Recommendations for material changes to compliance policies and procedures addressed in the annual report

Rule 38a-1 also requires that the annual report address, among other areas, any recommendations for material changes to compliance policies and procedures made as a result of the fund's annual review. Exhibit 9 presents the percentage of CCOs who reported whether or not recommendations for material changes to compliance policies and procedures were addressed in the annual report.



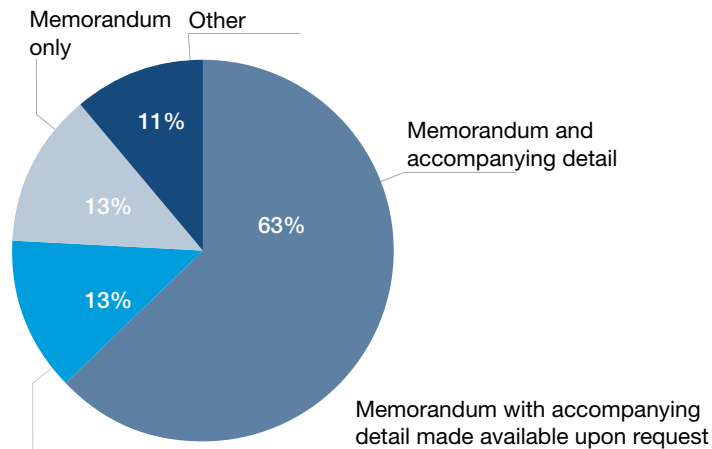
Number of respondents = 48

## Presentation and review of annual reports

### EXHIBIT 10 Format of annual report

Exhibit 10 presents the percentage of CCOs who reported providing the fund's board of directors the annual report in the format shown.

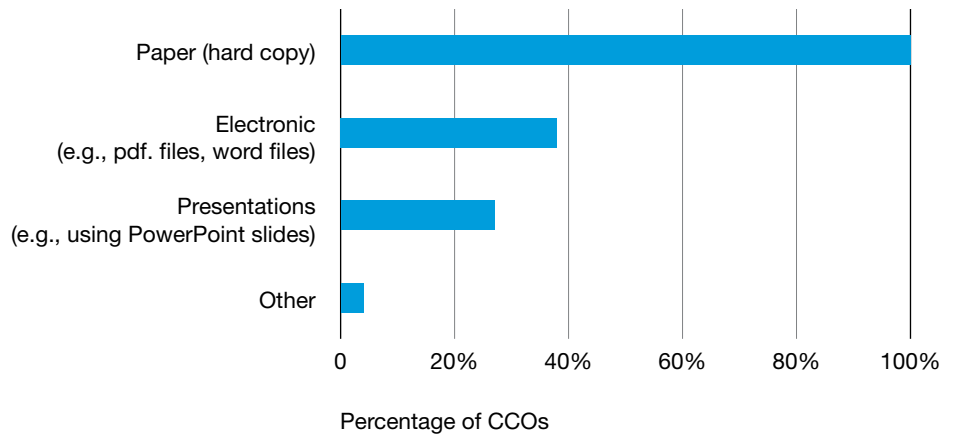
The Other category shown in Exhibit 10 represents responses having some similarities to one or more of the existing categories shown.



Number of respondents = 48

### EXHIBIT 11 Means used to provide the annual report to the fund's board of directors

Exhibit 11 presents the percentage of CCOs who reported using the means shown in providing the annual report to the fund's board of directors.



**Note:** CCOs were asked to select, as applicable, one or more of the means shown above

## EXHIBIT 12 Fund directors with whom the CCO discussed the annual report

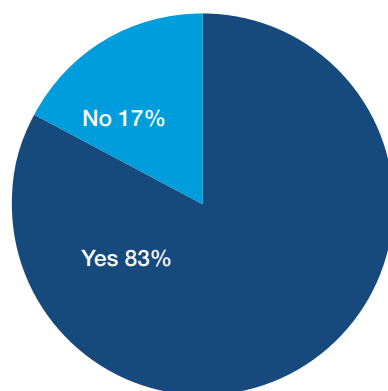
Exhibit 12 presents the percentage of CCOs who reported that they discussed the annual report with the composition of fund directors shown.

Fund directors with whom the CCO discussed the annual report	Percentage of CCOs
Fund's board of directors (all affiliated and independent members)	73%
All of the fund board's independent directors	11%
A board committee comprised of affiliated and independent directors	6%
A board committee comprised solely of independent directors	6%
Designated directors	2%
Other	2%
	100%

Number of respondents = 48

## EXHIBIT 13 Use of executive sessions with independent directors

Exhibit 13 presents the percentage of CCOs who reported whether or not an executive session was held with independent directors in connection with the discussion of the annual report.



Number of respondents = 48

## Presentation and review of annual reports (continued)

### EXHIBIT 14 Other parties participating in or present for the discussion of the annual report

Exhibit 14 presents the percentage of CCOs who reported that, in addition to fund directors, the corresponding party shown also participated in or was present for the discussion of the annual report.

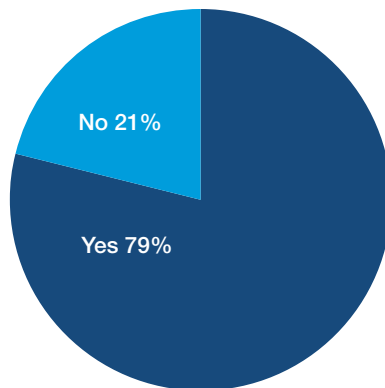
**Note:** As the Survey questionnaire did not ask CCOs whether directors' counsel and fund counsel were the same party, the Survey results are presented in a manner without distinction as to the commonality or difference between these parties. Also, results shown in respect of Adviser CCOs relate to Adviser CCOs who are not also the Fund CCO.

Other parties participating in or present for the discussion of the annual report	Number of affirmative responses	Total number of CCO respondents	Percentage of CCOs
Directors' counsel	42	45	93%
Adviser in-house counsel	34	40	85%
Fund counsel	39	47	83%
Adviser management	32	46	70%
Adviser CCO	11	22	50%
Internal auditor(s)	6	34	18%
Third-party service provider(s)	4	35	11%
External auditor(s)	5	44	11%
Other	2	2	-

## Interim report practices

### EXHIBIT 15 Use of written interim reports

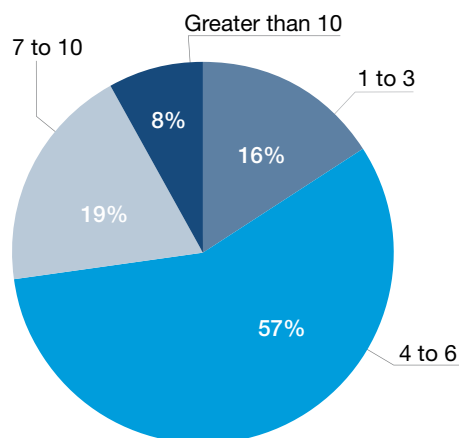
Exhibit 15 presents the percentage of CCOs who reported, in addition to the annual report, whether or not they provided (since October 2004) the fund's board of directors (or members thereof) one or more written interim report(s) in respect of the fund's compliance program.



Number of respondents = 47

## EXHIBIT 16 Number of written interim reports

Exhibit 16 presents the percentage of CCOs who reported providing the fund's board of directors (or members thereof) the number of written interim reports in respect of the fund's compliance program as shown.



Number of respondents = 37

## EXHIBIT 17 Matters addressed in the written interim report(s) to the fund's board of directors (or members thereof)

Exhibit 17 presents the percentage of CCOs who reported that the corresponding matter shown was addressed in the written interim report(s) to the fund's board of directors (or members thereof).

Matters addressed in the written Interim report(s) to the fund's board of directors (or members thereof)	Number of affirmative responses	Total number of CCO respondents	Percentage of CCOs
Results of regulatory inspections of the fund and/or its service providers	27	29	93%
Plans for addressing and/or status of remediation of deficiencies or weaknesses in compliance practices identified to date	25	28	89%
Areas in which compliance reviews were performed to date	30	37	81%
Material changes made or recommended to be made to the fund's and/or its service providers' compliance policies and procedures	29	36	81%
Information geared toward informing or educating the fund's board of directors (or members thereof) about SEC Rule 38a-1	26	37	70%

## EXHIBIT 18 Treatment in annual reports of information contained in written interim reports

Exhibit 18 presents the percentage of CCOs who reported the corresponding statement best describes the treatment in the annual report of information contained in the written interim report(s) previously provided to the fund's board of directors (or members thereof).

Treatment in annual reports of information contained in written interim reports	Percentage of CCOs
The annual report includes a summary or selected elements of the information previously provided in written interim report(s)	62%
The annual report includes, in full, the information previously provided in written interim report(s)	22%
The annual report makes reference to the previously provided written interim report(s) but doesn't include or summarize any information contained therein	16%
	100%

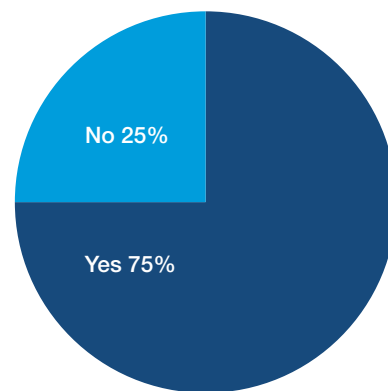
Number of respondents = 37

## Looking ahead at compliance programs

### EXHIBIT 19 Extent and nature of important changes expected to be made to fund compliance programs

Exhibit 19 presents the percentage of CCOs who reported whether or not they expect to make important changes to the fund's compliance program over the next twelve months.

As shown here, 75 percent of CCOs reported that they expect to make important changes to their funds' compliance programs over the next 12 months. The nature of the anticipated changes reported by the CCOs varied among fund families. The most frequently cited changes included: (i) improving use of technology, such as developing new applications or enhancing existing applications (identified by 33 percent of those CCOs who indicated they expect to make important changes to the compliance



Number of respondents = 48

programs); (ii) developing new or modifying existing approaches to compliance testing activities (31 percent); (iii) hiring additional personnel (19 percent); and (iv) increasing the

focus on forensic testing (11 percent). Appendix B contains a listing of other expected important changes to fund compliance programs that were reported by CCOs.

# section 4

## Appendices

## Appendix A Additional focus areas of annual reviews reported by CCOs

In addition to the most frequently cited areas of focus of annual reviews previously described in Section 2: Survey highlights, CCOs also identified additional areas of focus. Following are some of those additional areas of focus of annual reviews categorized by functional area.

### Fund level

- Disclosure of portfolio holdings
- Corporate governance
- Risk management
- Books and records
- Fund materiality policy
- Compliance culture
- Exemptive order procedures
- Proxy voting
- Sarbanes-Oxley certification process

### Portfolio management and trading

- Directed brokerage surveillance
- Side-by-side management (e.g., mutual funds and hedge funds)
- Gifts and entertainment
- Cross trades
- Liquidity procedures
- Long/short strategies
- Fund leverage limits
- Portfolio manager and trader communications

### Fund administration/accounting

- Financial reporting
- Securities lending
- Dividend/tax processes
- NAV error correction
- Fund expenses
- Custody

### Transfer Agent

- Redemption fees
- Exception processing
- Rule 22c-1 preparation

### Distribution

- Federal and state registration
- Registration licences
- Press articles/interviews/  
conference call transcripts

### Other

- Privacy
- E-mail review
- Record retention
- Internal/external auditor comments/  
regulatory exam results
- Prospectus and financial  
statement delivery
- Training programs
- Centralization/standardization  
of compliance recordkeeping

**Note:** In addition to the specific areas of focus listed above, a number of CCOs reported having undertaken general operations or procedures reviews in the functional areas presented.

## Appendix B Additional Important changes expected to be made to compliance programs

In addition to the changes noted as part of Exhibit 19, CCOs identified additional important changes expected to be made to fund compliance programs over the next 12 months. The changes reported are presented here in a manner that “groups” those having a common or similar nature.

### Risk assessment

- Implement or enhance risk assessment process
- Implement systematic way of tracking industry trends and hot issues

### Policies and procedures

- Enhance policies and procedures (including achieve consistency among such); restructure compliance manual
- Institute web-based policies and procedures

### Monitoring and testing

- Modifications to nature and extent of testing activities, including expansion of testing directed at trading practices, monitoring of third-party administrator(s), increased testing of service providers, institute rotational testing
- Enhance investment compliance monitoring
- Build testing into compliance system as an ongoing function
- Engage (or consider engaging) external consultants to review/test operations/controls
- Increase formalization of annual review cycle
- Develop and implement compliance metrics
- Institute compliance survey

### Technology

- Institute new or enhance existing systems (e.g., anonymous reporting of ethics and compliance issues, automated trading system, code of ethics/personal trading, email retention)
- Use of more automated testing reports
- Institute administrative tools
- Focus on data sourcing and integration

### Operations

- Identify and implement “best practices”
- Remediate/improve current processes
- Post-acquisition integration

### Communications and reporting

- Broaden compliance communications
- Institute reports of on-site visits to subadvisers
- Change board reporting format(s), including quarterly reports
- Increase detail reporting of compliance tests for board review

### Resources

- Leverage existing internal resources and/or third-party firms; increase delegation of testing activities
- Increase/enhance staff training





