Current developments for mutual fund audit committees

A quarterly summary

September 30, 2014

Introduction

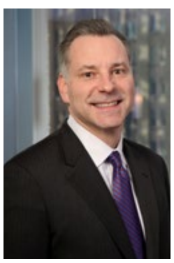
Dear clients, colleagues and friends,

We are pleased to provide you with the most recent *Current developments for mutual fund audit committees – A quarterly summary.*

The latest compilation of PwC articles and observations on developments for the three months ending September 30, 2014, includes the following topics:

- Regulatory hot topics affecting asset managers and mutual funds
- Cybersecurity considerations in financial services
- Asset management benchmarking study for traditional asset managers
- Seed capital – Investing in product innovation

We hope that you will find this material to be informative. If you have questions or would like additional information, please contact any of our subject matter specialists noted in the publication.



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Regulatory hot topics affecting asset managers and mutual funds

Background

PwC leaders and members of our Asset Management Governance and Regulatory Practice hosted an industry webcast on current regulatory developments, attended by a range of asset management industry participants including fund directors, management and consultants, in June 2014. This article summarizes SEC developments discussed during the webcast as well as certain other regulatory developments that may impact asset managers.

*Please click **here** for a link to the archived webcast.*

SEC developments

Of the many topics that are affecting asset managers and mutual funds, PwC's regulatory webcast centered on three specific topics of director interest:

- Regulatory environment
- SEC oversight and monitoring, including national examination priorities
- Innovation and product development

Regulatory environment

Undeniably, there has been a rapid pace of significant change in the regulatory environment and more is to come. The Dodd-Frank rules continue to be implemented and other regulations remain an area of pursuit by the SEC and other regulatory bodies. Currently there is a great deal of attention by the SEC on asset managers, their culture, their interactions with investors, and their effectiveness in complying with new regulations as well as their potential to be a source of systemic risk. Of special note is the SEC's ongoing effort to increase the SEC's regulation and oversight of the asset management industry – something that SEC Chair Mary Jo White indicated some months back would be an SEC priority.[1] The Financial Stability Oversight Council and other regulators in the US and abroad also continue to focus on asset managers. Directors' continued attention to the evolving regulatory environment as an integral component of the business strategy and overall risk management is as critical as ever. Regulatory changes can have an impact on advisors' or funds' competitive position, add complications related to compliance and create reputational risks. Moreover, the way regulators, such as the SEC, form policy, perform examinations and identify and pursue enforcement targets is changing as they enhance their capabilities of accumulating and analyzing data. Lastly, regulatory developments are not limited to the US, as regulatory change is global. Organizations need to consider how they conduct business currently and the impact to their strategies and risk management as they look for new opportunities both domestically and abroad.

SEC oversight and monitoring, including national examination priorities

The SEC's Office of Compliance Inspections and Examinations ("OCIE") has identified the priorities for its inspections of investment advisers, broker-dealers, investment companies and other securities industry intermediaries, which are illustrated in the diagram on the following page. The categories and certain sub-categories are expansive, demonstrating the potential breadth of an examination. Further, this is not intended to be an exhaustive list as the SEC may find other areas of interest during the inspection process on which it places emphasis. SEC Chair Mary Jo White has stated in speeches that maintaining a robust enforcement program is a prin cipal area of focus.[2] New investigative approaches and innovative use of data and analytical tools likely contributed to an increase in enforcements this year at the SEC; for the year-ended September 2014, the SEC filed a record 755 enforcement actions compared to 686 actions in the previous year.[3] The combination of the above factors underscores the importance of the compliance function and governance across an organization.

1 Securities and Exchange Commission, *SEC Chair address at SEC Speaks 2014*, February 2014

2 Securities and Exchange Commission, *The Challenge of Coverage, Accountability and Deterrence in Global Enforcement remarks at IOSCO conference*, October 2014

3 Securities and Exchange Commission, *SEC's FY 2014 Enforcement actions span securities industry and include first ever cases press release 2014-230*, October 2014

Fraud Detection/Prevention

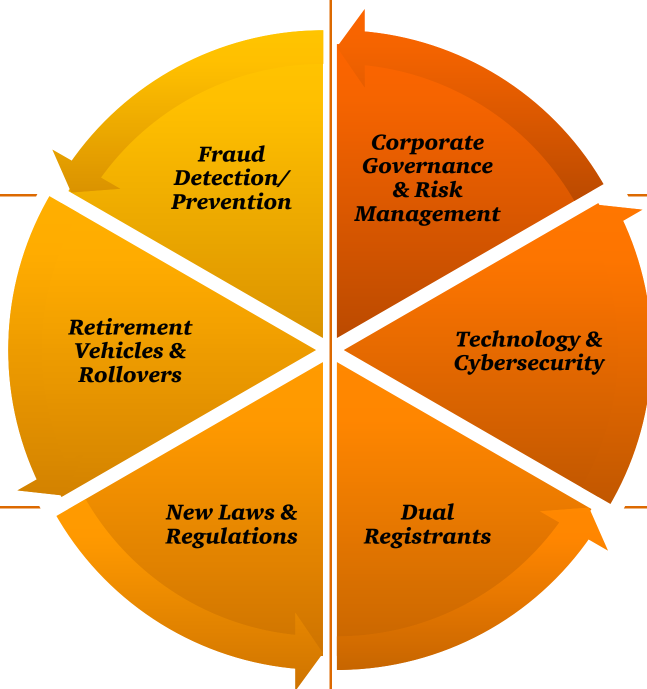
- Trust and integrity are key to the ongoing success of capital markets
- Focus on fraudulent or unethical behavior

Retirement Vehicles & Rollovers

- Examining sales practices
- Focus on misleading marketing or improper suitability determinations

New Laws & Regulations

- Rule 506(c)
- Crowd-funding due diligence
- Dodd-Frank Act Rulemaking



Corporate Governance & Risk Management

- Continue to engage with leadership to identify conflicts of interest and risk areas
- Focus on "tone at the top" and firms' approach to controls and risk management

Technology & Cyber Security

- Governance and supervision
- Examinations for cybersecurity initiative

Dual Registrants

- Risks associated with those registered as a broker-dealer and investment advisor
- Standards of conduct and different supervisory procedures examined

As part of the announced National Exam Priorities, OCIE is continuing its larger firm enterprise risk management program. OCIE will continue to meet with senior management and board leadership of SEC-registered entities to discuss how each firm identifies and mitigates conflicts of interest and legal, compliance, financial and operational risks. This initiative is designed to:

- Evaluate firms' control environment and "tone at the top";
- Understand firms' approaches to conflict of interest and risk management; and
- Initiate a dialogue on key risks and regulatory requirements.

More specifically for the asset management and mutual fund sectors, OCIE's breadth and depth of inspections has focused on the following:

Core risks:

- Safety & custody of assets
- Conflicts of interest in certain investment advisor business models
- Marketing and performance

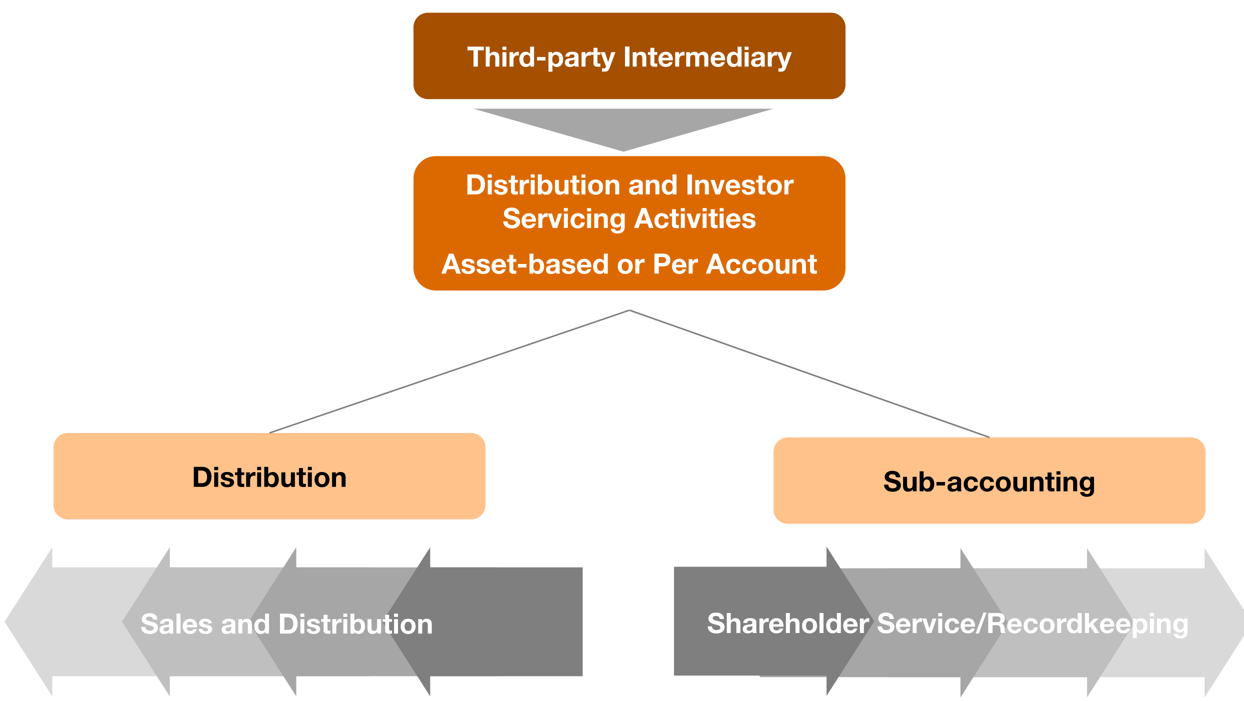
New and emerging issues and initiatives:

- Wrap fee programs
- First time reviews of advisors
- Quantitative trading models
- Presence exams of registered investment advisers to private funds
- Payment for distribution in guise (intermediary payments)
- Fixed income investment companies and risks associated with a changing interest rate environment

Policy issues:

- Money market funds
- "Liquid alternative" investment companies
- Securities lending arrangements

One item of SEC focus noted above is intermediary payments. Many boards and management are spending time discussing and assessing the intermediaries that are servicing mutual funds and shareholders. Distribution and investor servicing activities have evolved over time, resulting in less transparency into intermediaries' services as they perform an increasingly complex variety of tasks for both mutual funds and shareholders. The SEC is looking into what may be "distribution in guise"; that is, what services intermediaries perform and the distinction between sub accounting/administration and distribution functions. The SEC is trying to understand whether a registered mutual fund is paying abnormally high administration or sub-transfer agent fees as a way to facilitate additional distribution services outside the 12b-1 plan as opposed to shareholder services. The SEC has placed attention on the entities who are parties to the contract, the nature of the agreement, and who is actually paying for the services. In addition, the SEC is focused on advisory fee and revenue sharing arrangements, the adequacy of fund disclosures in financial statements and prospectuses about distribution and servicing fees, and the level of oversight by fund boards, including review of disclosures. To help assess contracts and analyze data such as excessive fees relative to peers, the SEC has begun to hire industry experts. It is important for management teams supporting the distribution channels to be engaged with and inform their boards on how these arrangements work.



Innovation and product development

Another area of focus by the SEC is in new products, in particular, liquid alternatives and exchange traded funds ("ETFs").

Liquid alternatives are 1940 Act mutual funds whose strategies have been more traditionally associated with hedge funds and other alternative asset managers (global macro, short selling, managed futures). In March 2014, OCIE announced plans for sweep exams for liquid alternative funds, with a focus on liquidity, leverage, investment allocation, governance, and sub-advisor oversight. Please see PwC's article, *Liquid alternatives – Operational and regulatory considerations, included in our Q2 Current developments for mutual fund audit committees* publication.

Although Exchange Traded Funds ("ETFs") have been around for a number of years, their growth has been explosive and they have become increasingly complex, with an increasing number of actively-managed funds being introduced. The SEC has been studying ETFs within a number of its divisions and has identified the following areas of focus for further review and investigation:

- Adequacy of the risk disclosures in the prospectus and financial statements such as leverage or exotic properties embedded in a fund;
- Point of sale - how the products are sold and whether the intermediaries and sales force are appropriately trained in understanding the product; and
- Risk and policy – the SEC has been looking at the degree to which the fund performs in line with the index ("tracking error") and the impact of fees charged.

Other regulatory developments that may impact asset managers

On September 3, 2014, the US banking agencies (Federal Reserve, Office of the Comptroller of the Currency, and Federal Deposit Insurance Corporation) issued their final rule implementing a key component of the Basel III capital framework - the Liquidity Coverage Ratio ("LCR"). The LCR is a short-term liquidity measure intended to ensure that banking organizations maintain a sufficient pool of liquid assets to cover net cash outflows over a 30-day stress period.

The final rule retains most key components from the proposal, especially controversial features such as excluding municipal debt from high quality liquid assets and requiring the LCR calculation to be based on the highest occurrence of net cash flows over the 30-day stress period (i.e., the peak day approach). Therefore, although the final LCR was a bit more lenient than the proposal, it nonetheless remains more stringent than Basel's version, posing a challenge for US firms.

The Fed staff has indicated that they want to work on a plan to eventually include most liquid municipal bonds in the asset buffer. Consequences of municipal bonds being excluded in the calculation could include reduced demand and potentially lower liquidity in the municipal market, impacting mutual fund complexes that hold these securities.

Closing remarks

The regulatory landscape for the asset management industry continues to change and this article summarized certain topics of director interest. It is important for organizations to remain current on regulatory developments including future rulemakings, and assess the regulatory strategy in place to address compliance. An ongoing dialogue between directors and management of these matters can help directors in their oversight of mutual funds.

Cybersecurity considerations in financial services

At a glance

The current focus on cybersecurity, both as a commercial consideration and regulatory imperative, has established the topic as a key business risk for most financial services organizations. In a recent PwC co-sponsored survey, 2014 US State of Cybercrime Survey, 59% of respondents said they were more concerned about cybersecurity threats this year than in the past.[1] While mutual fund boards of directors may not have a direct role in establishing and maintaining the cybersecurity posture for the organization, general awareness of industry trends and regulatory expectations will serve to guide boards of directors. As outlined below, multiple regulatory bodies have announced specific efforts to evaluate their constituent preparedness to handle cybersecurity risks. While there is no "silver bullet" regarding cybersecurity, there are measures organizations can consider to implement a more robust security program.

1 2014 PwC Co-Sponsored US State of Cybercrime (Co-sponsors include: CSO Magazine, United States Secret Service, The Engineering Institute CERT® Program at Carnegie Mellon University)

Background

Financial services industry regulators are demonstrating an increased interest in the ability of organizations to defend against cyber risks from adversaries such as terrorists, hackers, organized crime, and state-sponsored groups. As the increasing frequency of incidents elevates threats to customers, reputations, brands, and intellectual property of financial companies; regulators have sharpened their focus on cybersecurity. Recent actions within the financial services industry include:

- The Financial Industry Regulatory Authority (FINRA) announced a targeted Examination Letter to conduct an assessment of broker-dealers' approaches to managing cybersecurity threats.[2]
- The Securities and Exchange Commission (SEC) Office of Compliance Inspections and Examinations (OCIE) announced in a Risk Alert that it will examine the cybersecurity preparedness of more than 50 registered broker-dealers and investment advisers.[3]
- New York Governor Andrew Cuomo announced that the New York Department of Financial Services (DFS) will begin assessing financial institutions for cybersecurity preparedness. In making the statement, Governor Cuomo said, "Targeted cybersecurity assessments for banks will better safeguard financial institutions from attacks and secure personal bank records from being breached."[4]
- The Federal Financial Institutions Examination Council (FFIEC) highlighted its efforts to enhance financial institutions' cybersecurity during a webinar viewed by approximately 5,000 chief executive officers and senior managers from community financial institutions.[5] FFIEC announced a vulnerability and risk-mitigation

2 FINRA, *Targeted Examination Letters*, January 2014

3 Securities and Exchange Commission, *National Exam Program Risk Alert*, April 15, 2014

4 Governor's Press Office, *Governor Cuomo Announces New Cyber Security Assessments for Banks*, May 6, 2014

5 FFIEC, *FFIEC Promotes Cybersecurity Preparedness for Community Financial Institutions*, May 7, 2014

assessment, as well as regulatory self-assessment of supervisory policies and processes. The assessments, which will be conducted this year, are designed to help FFIEC member agencies make informed decisions about cybersecurity and to address gaps and prioritize actions to strengthen supervisory programs. The FFIEC said a primary goal is to provide additional support to community banks, which may not have access to resources that are available to larger institutions.

What does this mean for me?

An analysis of the variety of industry guidance and frameworks identified a number of common themes which would naturally be areas for consideration:

- Highlight the need for a risk-based approach to cybersecurity
- Establish a culture of security through "tone at the top"
- Develop a plan for responding to security incidents/breaches – testing regularly through table top exercises and simulations
- Focus on third party risks and monitoring of third parties
- Prioritize and improve threat intelligence to enable firms to better understand the types of threats most likely to impact the organization
- Consider the role of cyber insurance
- Basic fundamentals of security programs, such as having strong organizational governance processes, written policies and focusing on user awareness

While many of these areas would be the responsibility of the security officer or other designee within the organization, the Board may consider focusing on how management establishes the appropriate "Tone at the Top" and makes cybersecurity a business priority. Additionally, support for a don't-go-it-alone approach has been growing due to the nature and complexity of cyber threats. Large organizations have come to realize that sharing intelligence and best practices with peers aids in the adoption of a stronger security program.

Numerous frameworks have been established to assist organizations with the adoption of industry leading practices to respond to the ever growing cybersecurity threat. Many organizations would fall short of the standards established in these frameworks; however, we are seeing a concerted effort across the financial services industry to remediate gaps and quickly identify and manage cyber risks. One commonly referenced framework was issued by the National Institute of Standards and Technology (NIST). The NIST Cybersecurity Framework was specifically mentioned in the SEC remarks referenced earlier and establishes a suggested method for preparing for and responding to cyber risks. Another common framework was established by the International Organization for Standardization (ISO) through their 27001 framework.

While the aforementioned frameworks will not conclusively protect an organization from a cybersecurity event, they all provide methods to help prepare the organization, direct investment in specific technology and safeguards, and establish protocols to deal with specific threats as they occur. Adoption of a strong security governance program establishes awareness throughout the organization regarding the existence of cyber risks and promotes behaviors to enable the organization to quickly respond when events occur.

Other considerations

While much of the cybersecurity discussion revolves around what is done internally to protect the company's internal assets, a fully functioning security program will assess all of the cyber risks that have the potential to impact the organization. Boards can work collaboratively with management to assess critical data sources at the organization in the design of the security program. A common attribute within mutual fund complexes is the use of third party service providers that may house sensitive data on the organization's behalf, process data and send it directly back to in-house systems, and/or maintain connections to the organization's systems. In these scenarios, management should consider what steps key vendors and service providers have taken to promote the security and confidentiality of the organization's data.

Again, working collaboratively with these entities will help to establish a seamless security program that remains responsive to the organization's ever-changing business environment.

Additionally, establishing organizational awareness of breach attempts may help to reduce the risk of a successful breach in the future. Recently publicized events highlighted the importance of establishing response mechanisms to address timely action when breach attempts were detected. Boards can focus discussions with management not only on the implementation of technology to prevent and detect malicious activity, but also on the communication protocol before a potential breach occurs. Establishing a list of individuals to review and consider information related to a security event before the event occurs will help to expedite solutions-based responses.

The takeaway

Business imperatives are a major driver behind the increased focus on cybersecurity; however, regulatory consideration has increased as well. Financial services regulators have heightened scrutiny of the industry's practices to avoid cybersecurity risks in an effort to maintain trust in the industry and promote security of financial records. Several mutual fund boards consider cybersecurity as a top priority in their interaction with management and foster open communication about organizational preparedness. Demonstrated action towards establishing and maintaining a formal cybersecurity program, focused collaboration within industry, and awareness of organizational risks may be considered key tenets of the information flow with the board.

Asset management benchmarking study for traditional asset managers

While 2013 was a successful year for many asset management firms, with assets under management eclipsing pre-crisis levels for some, asset management firms continue to face a challenging environment amidst pressure from the competition, regulators and investors. To help asset managers respond effectively to these demands, PwC conducted a survey to explore trends that would help asset management executives and management teams benchmark their practices against the asset management industry as a whole ("PwC's Asset Management Benchmarking Study for Traditional Asset Managers").

We recently conducted interviews and collected and analyzed data covering 19 asset management firms representing $8.5 trillion of assets under management with the objective of identifying and analyzing key trends and industry metrics. We gathered data covering industry practices related to:

- Fund boards and governance
- Business resource models
- Product development
- Valuation
- NAV calculation
- Corporate action processing
- Financial reporting
- Shareholder transaction processing
- Tax compliance

Some of our key observations based on the data we collected are highlighted below.

Fund oversight

Governance

Fund Boards recognize the varied skillsets of the board members, and employ sub-committees to best utilize these skillsets to fulfill the board's responsibilities efficiently. Highly effective boards include a mix of directors with the requisite skillset, experience, and expertise to fulfill their oversight role. Accordingly, general industry/business and financial backgrounds are highly sought after for fund boards. Of particular interest is the frequency of Committee meetings, with 92% of respondents conducting Audit Committee meetings on at least a quarterly basis. The increased focus on valuation is evident as well, with 63% of respondents also conducting board level Valuation Committee meetings on at least a quarterly basis.

Business resourcing models

Although there are various business resourcing models in the market, the function most commonly supported by an in-house model was tax distributions, while the function most commonly outsourced to a third-party administrator was NAV calculation. Over 70% of respondents had at least one fund administration function insourced.

Product development

Over half of respondents indicated that they are experiencing net fund launches, with the average time to launch a fund being 149 days. The most common challenges cited related to delays in fund launches were resources, funding and servicing capabilities.

Fund accounting and valuation

Valuation and security pricing

The valuation governance model for traditional funds has been established for several years now, with most participants having a pricing or valuation committee that is responsible for making the final decision on valuation matters. Most organizations have various types of controls in place, including a stale price review, comparisons of prices to market trade data, reconciliation of primary and secondary vendors and high standards of authorization being required for price overrides. We also looked at valuation approaches and FASB fair value measurement disclosures per ASU 2011-4. The most common inputs under the market approach for registered investment companies are EV/EBITDA multiple, broker quote, and price or NAV (for non-registered funds), considering the profile of Level 3 securities held in these types of funds (e.g. private placements, broker-priced fixed income securities).

NAV calculation

Causes of NAV errors: Pricing errors were the root causes of most NAV errors, followed by trading and transaction errors. Managers consistently reported having certain daily reviews in place to prevent NAV errors, as well as maintaining monthly/quarterly scorecards to track and measure key metrics. In addition, a special committee is often in place that reviews summaries of NAV errors and restatements. Our analysis indicated a high correlation between the number of days an incident goes undetected and the number of NAV errors that result.

Corporate action processing

During our qualitative interviews, the following reasons were associated with corporate action errors: elections were interpreted incorrectly, manual processing error, revision of corporate action terms and late notification of corporate action by custodian.

Financial reporting

Processes and efficiency

Factors influencing financial reporting cycle times: While on average financial statement cycle time is 51 days, this varied widely across managers, with 79% of the variance in cycle time was attributable to the following:

- Workload balancing – measured by the average number of holdings in the largest fiscal year-end period close
- Complexity– measured by the percentage of securities that were fair valued
- Process efficiency- measured by the number of iterative drafts

For firms with cycle times on the high end, an asset manager may consider the feasibility of moving funds to different fiscal year end dates to balance workload more evenly, instituting process efficiency initiatives, such as increased automation or quality enhancements, including standardized disclosure templates and review checklists, to reduce the number of iterative drafts.

Shareholder transaction processing

Transfer agency operating models

While 50% of respondents outsource the transfer agency function, 29% use multiple transfer agents. Top reasons cited for using multiple transfer agents include support for different product lines, support for different segments, and continuation of the existing model from legacy acquisitions.

Errors and controls

Manual transactions were cited as the top reason for transaction errors. Higher error rates often occur with new account openings, exchanges/transfers and non-standard transactions. To reduce such shareholder transaction errors, organizations various controls, including tiered quality assurance and back-end reporting reviews.

Tax compliance

Process automation

Sourcing models used to support the tax function: Most firms used a hybrid sourcing model for their tax function. Work output per tax full-time equivalent (“FTE”) was correlated with the degree of automation in the tax function. Firms with higher levels of output per tax FTE had higher levels of automation, allowing them to be less headcount dependent. We found that firms with manual processing environments needed an additional 7 FTEs (on average) in their tax function, when holding volumes constant. In addition, firms with manual processing environments produced 34 fewer filings and work items per tax FTE as compared to firms with partially automated models.

Seed capital – Investing in product innovation

Introduction

As asset managers continue to seek out new product opportunities and expand the scale of existing products to meet ever-increasing distribution platform requirements, the deployment of seed capital, defined as cash invested by asset managers to launch new products or pilot new strategies, continues to be highly relevant to firms in the asset management industry. PwC's 2013 Seed Capital Program Survey ("2013 Survey" or "the survey"), which summarizes data from 16 participating asset management firms regarding their seed capital program strategies, found that over the past two years the seed capital programs of these asset management firms as a percentage of total assets under management ("AUM") increased as compared to PwC's 2011 Seed Capital Program Survey ("2011 Survey"). To some degree, the size of these seed capital programs correlated to the total AUM of the individual firms, while the percentage breakdown of seed capital by investment discipline was heavily weighted towards fixed income products, substantial commitments to equity and alternative products were made as well (see Figure 1).

Figure 1: Measures of seed capital program size, December 2012

Seed capital program – 2013 survey						
	$ (in millions)			*Basis Points of AUM*		
AUM (# of participants)	Range	Median	Average	Range	Median	Average
Less than $200B (6)	$12 - $146	$78.9	$77.9	2.7 – 15.5	7.8	8.5
$200B - $500B (2)	$191 - $239	$215.0	$215.0	6.8 – 9.2	8.0	8.0
*Greater than $500B (8)	$27 - $944	$442.0	$470.6	<1.0 – 12.1	4.9	5.7

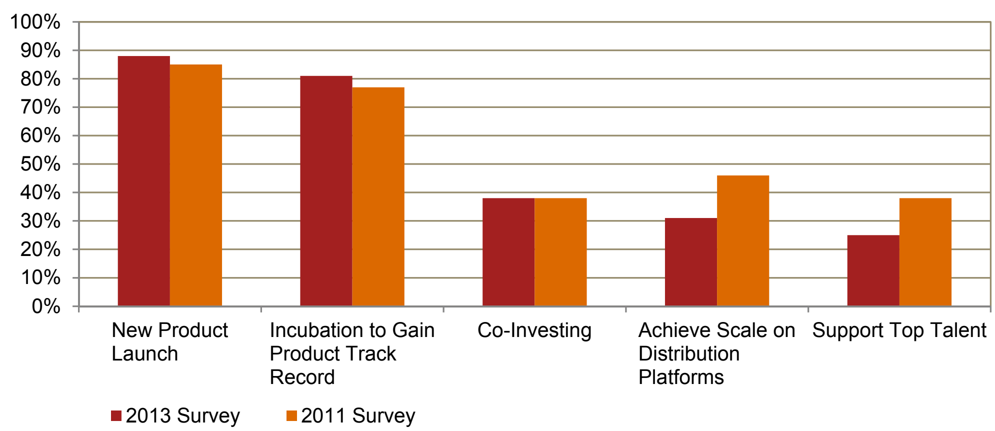
**Two participants reported significantly lower seed capital assets than their peers, attributable to distribution channel and product considerations.*

The 16 participating firms represent a diverse range of organizations within the asset management industry, with eight firms reporting AUM below $500B and eight reporting AUM above $500B. Eight of the firms are publicly listed and eight are private, with business models categorized as global diversified (7 firms), traditional asset managers (5), and multi-affiliate managers (4). Twelve of the firms are returning participants from the 2011 survey, adding continuity and comparability to the year-over-year data. Survey participants manage assets across all major investment disciplines.

Seed program metrics

As described in the introduction, we have noted the continued growth in seed capital programs as a percentage of AUM at the participating firms, as compared to the prior survey. Based on the responses provided, a variety of factors play into the growth of seed capital at our participating firms: increased drive for product innovation and expansion of alternative investment offerings, larger initial scale required to launch products onto distribution platforms, greater availability of investment capital due to recent debt and equity offerings, and the desire to further incubation strategies to establish product track records, all of which remain consistent with our 2011 Survey results (see Figure 2).

Figure 2: Use of seed capital



Across investment disciplines, fixed income and equity strategies were the largest recipients of seed capital funding, accounting for 37% and 27% of our survey participants' seed capital AUM, respectively. Other alternative investments (long-strategy products, short-strategy products, derivatives, commodities, etc.) accounted for 11% of seed capital, and diversified/asset allocation (10%) and real estate (7%) disciplines round out the top five seed portfolio investments, with money market investments ranking last, at below 1%. We noted that all 16 survey participants currently hold seed capital investments in fixed income funds, while 94% hold seed investments in equity funds, 69% in asset allocation funds, 69% in alternative funds, and 38% in real estate funds.

Time horizons for seed investments tend to be four years or less, except in the case of private equity, real estate, and other alternative investments, which require longer investment periods.

Survey participants generally expect varying timelines to launch for different seed capital disciplines. Survey participants named equity, fixed income, money market, and diversified/asset allocation investments as seed capital products with a moderate time horizon, with durations averaging two to four years. Participants named real estate, private equity, and other alternatives as the seed capital products with the longest time horizons, with more than 50% of respondents identifying both real estate and private equity seed capital duration as typically greater than six years. Other alternatives fell on the low end of the longest-duration category, with the majority of responses indicating a two to four year time horizon. Participants identified passive products and exchange-traded funds as the seed capital products with the shortest time horizons, with durations of no longer than four years.

Program management and governance

All of the 2013 Survey participants have a formal process in place to request new or additional seed investments, and eight of the sixteen participants (50%) maintain formal documentation of this process through a committee charter or other document. This figure is consistent with findings from the 2011 Survey.

Twelve of the survey participants (75%) have an established committee providing governance over the program (e.g., investment committee, product development committee, or separate seed capital committee). Of these twelve participants, the committees at eight firms (67%) are chaired by the CEO, CFO, or CAO, while the remaining four (33%) are chaired by a member of senior management from product development or distribution. Among the four participants (25% of total) where no formal committee oversight exists, some level of approval from senior management is still required.

All firms who participated in the survey require a formal business case for each seed investment, which is subject to review and approval prior to funding. We noted that seed capital approvals are subject to a thorough review process within the organizations surveyed: 13 of our 16 survey participants (81%) reported that approval for proposed seed investments is routinely declined, and only three participants (19%) reported that approval is seldom withheld. Some of the most prevalent reasons cited for denial of seed capital requests include lack of free cash flow, absence of client demand for the product and perceived lack of marketability, and overall seed capital organizational caps which prevent the deployment of additional funds.

These results, in total, suggest an increasing trend towards more formal oversight of seed capital programs by those charged with corporate governance at the organizations surveyed.

Hedging seed capital portfolios

Approximately one-third of survey participants (31%) currently hedge their seed capital portfolio, representing a large drop from the 54% of respondents who reported hedging activities in the previous survey. The remaining 69% of participants report no active hedging strategy related to their seed capital program, though two of those participants (13%) are considering future hedging opportunities.

Summary

Drawing from the results of the 2013 Survey, the following themes were noted based on participants' responses:

- The push by asset management firms to provide new product offerings, including ETFs and alternative products, has caused increases in seed capital assets as a percentage of AUM, with an increasing duration of seed portfolios given the requirements of these product types
- Increased focus on accountability and oversight of seed capital programs has caused continued formalization of policies and procedures governing strategy and investment
- Growing thresholds required to obtain scale on distribution platforms has driven additional seed capital investment into newly-established products
- Firms continue to look to interest and exchange rate volatility in deciding whether to implement strategies to hedge exposure on seed investments

Summary of developments for the six months ended September 30, 2014

Accounting and financial reporting matters from the FASB, PCAOB, SEC, and others

Going concern

On August 27, 2014 the FASB issued Accounting Standards Update No. 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* (the "new standard"), which defines management's going concern assessment and disclosure responsibilities. The new standard will explicitly require management to assess an entity's ability to continue as a going concern, and to provide related footnote disclosures in certain circumstances. According to the new standard, substantial doubt exists if it is probable that the entity will be unable to meet its obligations within one year after the issuance date. The likelihood threshold of "probable" is similar to its current use in US GAAP for loss contingencies. Disclosures will be required if conditions give rise to substantial doubt. Management will need to assess if its plans will alleviate substantial doubt to determine the specific disclosures.

Proposal to eliminate extraordinary items

On July 15, 2014, the FASB issued the following a proposed Accounting Standard Update, *Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items*. The proposed ASU seeks to reduce cost and complexity by eliminating the concept of extraordinary items. Current GAAP requires organizations to evaluate whether an event or transaction is an extraordinary item and, if it is deemed so, to separately present and disclose the item. However, the concept of extraordinary items causes uncertainty because it is unclear when an item should be considered both unusual and infrequent. Comments on the proposal were due by September 30, 2014.

Transfers and servicing (Topic 860)

On June 12, 2014, the FASB issued Accounting Standards Update No. 2014-11, *Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures* (the "new standard"). The new standard amends the accounting guidance for "repo-to-maturity" transactions and repurchase agreements executed as repurchase financings. In addition, the new standard requires a transferor to disclose more information about certain transactions, including those in which it retains substantially all of the exposure to the economic returns of the underlying transferred asset over the transaction's term.

As a result of the new accounting guidance:

- Repo-to-maturity transactions will be reported as secured borrowings. Under current accounting rules, these transactions may qualify for sale accounting if certain conditions are met.
- Transferors will no longer apply the current "linked" accounting model to repurchase agreements executed contemporaneously with the initial transfer of the underlying financial asset with the same counterparty. Under the new standard, the accounting for each transaction instead will be evaluated on a standalone basis. This is expected to result in many of these repurchase agreements being reported as secured borrowings.

The new standard also requires additional disclosures by transferors for transactions that involve a transfer of a financial asset reported as a sale and accompanied by an agreement that results in the transferor retaining substantially all of the exposure to the economic returns of the transferred asset during the transaction's term.

In these circumstances, the transferor is required to provide the following information, by type of transaction (e.g., repurchase agreement, or a sale accompanied by a total return swap) outstanding at the reporting date:

- Carrying amount of the assets derecognized and the gross amount of proceeds received at the transfer date, and
- Related amounts reported on the balance sheet (e.g., carrying value of the total return swap)

The transferor is also required to provide information about its ongoing exposure to the economic return on the transferred assets, including a description of the arrangements and the risks associated with those arrangements.

With one exception, public business entities are required to apply the accounting changes and comply with the enhanced disclosure requirements for the first interim or annual reporting period beginning after December 15, 2014. However, for repurchase and securities lending transactions reported as secured borrowings, the new standard's enhanced disclosures are effective for annual periods beginning after December 15, 2014 and interim periods beginning after March 15, 2015. A public business entity may not early adopt the standard's provisions.

In all cases, an entity must report changes in accounting for transactions outstanding on the effective date as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. The new disclosures are not required for comparative periods prior to the effective date.

Revenue recognition

On May 28, 2014, the FASB and IASB issued their long-awaited converged standard on revenue recognition. The objective of the revenue standard is to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability within industries, across industries, and across capital markets. The revenue standard contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognized.

Auditing matters from the PCAOB, AICPA, and SEC

Investor Advisor Group meeting

The PCAOB announced that its Investor Advisory Group is scheduled to meet on October 20, 2014. The agenda topics include: (1) audit firm business model and incentives, (2) how to improve audit quality and the relevancy of the audit, and (3) the relationship and role of the auditor with the audit committee. The PCAOB Investor Advisory Group is a forum for the investor community to provide the board with views and advice on matters affecting investors and the work of the PCAOB.

Standard-setting agenda

On September 30, 2014, the PCAOB issued an updated standard-setting agenda which provides a brief project overview of the board's current standard-setting agenda and outlines key milestones on various standard-setting projects. Key items to note are:

- Disclosure of engagement partner – to issue supplemental request for comment
- Auditors reporting model – to repropose
- Other projects:
  - » Confirmations – to repropose
  - » Subsequent events – to propose

Revenue

In September 2014, the PCAOB issued a Staff Audit Practice Alert for auditing revenue in response to PCAOB inspection findings. The PCAOB also suggested that this may be a topic for audit committees to discuss with their auditors.

Going concern

In September 2014, the PCAOB published a Staff Audit Practice Alert intended to highlight requirements of existing PCAOB standards when considering a company's ability to continue as a going concern in light of the FASB's new accounting standard on the topic.

Auditing of accounting estimates and fair value measurements

On August 19, 2014, the PCAOB issued a staff consultation paper for public comment to solicit feedback on certain issues related to auditing accounting estimates and fair value measurements. The PCAOB staff identified a number of alternative approaches. The options for the new standard include:

- Align with the PCAOB's risk assessment standards
- Generally retain the approaches to internal control and substantive testing from the existing standards, but include requirements that apply to both accounting estimates and fair value measurements
- Establish more specific audit requirements related to the use of third parties in developing accounting estimates and fair value measurements, and
- Create a more comprehensive standard to promote greater consistency and effectiveness in application

The PCAOB staff appears to favor a new single standard as opposed to the separate standards that exist today. Comments on the consultation paper were due by November 3, 2014. Additionally, the PCAOB hosted a special meeting of its Standing Advisory Group ("SAG") on October 2, 2014 to discuss this topic further. The agenda included panel discussions offering various perspectives on the potential need for changes, including challenges posed for auditors, audit committee and investor perspectives and observations from academic research. The SAG meeting was part of outreach efforts by the Office of the Chief Auditor to seek public input into whether PCAOB standards need to be updated.

Auditor reporting model

In June 2014, the Center for Audit Quality (CAQ) provided recommendation to the PCAOB as a result of field testing of the proposed standard related to the disclosure of critical audit matters (CAMs) and the auditors' responsibilities regarding other information. The CAQ recommendations included refining the sources and factors to be considered when determining whether a matter is a CAM. Specifically, the CAQ recommended that the focus be only on matters communicated to the audit committee, and that the standard include an explicit requirement to consider the concept of materiality as a relevant consideration.

As it related to the PCAOB's proposal for an auditor's responsibility regarding other information, the CAQ recommended that the PCAOB clarify the term "evaluate" by providing more specific identification of the nature and extent of procedures to be performed by the auditor. The PCAOB staff is currently analyzing the comments received and is expected to draft a reproposal for the Board's consideration before the end of the year.

Related parties

On June 10, 2014 the PCAOB adopted Auditing Standard No. 18, *Related Parties* ("the standard") and also adopted amendments to certain PCAOB auditing standards that address the auditor's responsibilities with respect to a company's significant unusual transactions and a company's financial relationships and transactions with its executive officers ("the amendments"). The PCAOB adopted the standard and amendments substantially as they were re-proposed in May 2013 (the standard and amendments were originally proposed in February 2012).

The standard, which supersedes PCAOB interim standard AU 334, *Related Parties*, is designed to strengthen auditor performance requirements by setting forth specific procedures for the auditor's evaluation of a company's identification of, accounting for and disclosure of relationships and transactions between the company and its related parties. Among other things, the standard requires the auditor to:

- Perform specific procedures to obtain an understanding of the company's relationships and transactions with its related parties, including obtaining an understanding of the terms and business purposes (or the lack thereof);
- Evaluate whether the company has properly identified its related parties and relationships and transactions with related parties by performing procedures to test the accuracy and completeness of management's identification, taking into account information gathered during the audit;
- Obtain representation letter from management that all related party names, relationships and transactions have been disclosed to the auditor;
- Perform specific procedures if the auditor determines that a related party or relationship or transaction with a related party previously undisclosed to the auditor exists;
- Perform specific procedures regarding each related party transaction that is either required to be disclosed in the financial statements or determined to be a significant risk;
- Communicate to the audit committee the auditor's evaluation of the company's identification of, accounting for and disclosure of its relationships and transactions with related parties, and other significant matters arising from the audit regarding the company's relationships and transactions with related parties; and
- Inquire whether any member of the audit committee has concerns regarding relationships or transactions with related parties.

The amendments regarding significant unusual transactions revise PCAOB AU 316, *Consideration of Fraud in a Financial Statement Audit*, and other PCAOB auditing standards with the intent of strengthening the auditor's performance requirements for the identification and evaluation of these transactions. Among other things, the amendments require the auditor to:

- Perform specific procedures to identify significant unusual transactions and to obtain an understanding of, and evaluate, their business purpose (or lack thereof); and
- Consider additional factors in evaluating whether significant unusual transactions may have been entered into to engage in fraudulent financial reporting or conceal misappropriation of assets.

Other amendments modify Auditing Standard No. 12, *Identifying and Assessing Risks of Material Misstatement*, to require the auditor to perform specific procedures to obtain an understanding of the company's financial relationships and transactions with its executive officers, including compensation. The amendments do not require the auditor to make any determination regarding the reasonableness of compensation arrangements or recommendations regarding compensation arrangements.

The standard and amendments were approved by the SEC on October 21, 2014 and will be applicable to all audits performed pursuant to PCAOB standards. Pursuant to the JOBS Act, the standard and amendments will be subject to a separate determination by the SEC regarding their applicability to audits of emerging growth companies ("EGCs"). The new standard and amendments will be effective for audits of financial statements for fiscal years beginning on or after December 15, 2014, including reviews of interim financial information within these fiscal years.

Reorganization of PCAOB auditing standards and rules

On May 7, 2014, the PCAOB issued a supplemental request for comment on its proposed framework for reorganization of PCAOB auditing standards and related amendments to PCAOB auditing standards and rules and reopened the comment period on the proposed reorganization which closed on July 8, 2014.

Compliance and regulatory matters from the SEC and others

On September 3, 2014, the US banking agencies (Federal Reserve, Office of the Comptroller of the Currency, and Federal Deposit Insurance Corporation) issued their final rule implementing a key component of the Basel III capital framework - the Liquidity Coverage Ratio ("LCR"). The LCR is a short-term liquidity measure intended to ensure that banking organizations maintain a sufficient pool of liquid assets to cover net cash outflows over a 30-day stress period. The LCR retains most key components from the proposal, especially controversial features such as excluding municipal debt from high quality liquid assets and requiring the LCR calculation to be based on the highest occurrence of net cash flows over the 30-day stress period (i.e., the peak day approach). Therefore, although the final LCR was a bit more lenient than the proposal, it nonetheless remains more stringent than Basel's version, posing a challenge for US firms.

In June 2014, the SEC issued Investment Management Guidance Update, 2014-09, *Business Development Companies with wholly owned subsidiaries- asset coverage requirements*. Exemptive orders, issued by the SEC from time to time, can grant limited relief from asset coverage requirements. Subject to certain representations and conditions, the relief permits a BDC to treat certain indebtedness issued by its wholly owned subsidiary operating as a small business investment company as indebtedness not represented by senior securities for purposes of determining the BDC's consolidated asset coverage.

In June 2014, the SEC issued Investment Management Guidance Update, 2014-08, *Guidance regarding Mutual Fund Enhanced Disclosure*. This Guidance Update relates to the SEC's enhanced mutual fund disclosure amendments adopted in 2009. While this guidance does not specifically relate to compliance with Rule 498, it does relate to the content of Summary Prospectuses, t hrough the disclosures contained in the Summary Section of the statutory prospectus.

In June 2014, the SEC issued Investment Management Guidance Update, 2014-06, *Series Investment Companies, Affiliated transactions*. This Guidance Update reminds mutual funds that are series companies about the importance of ensuring that their compliance policies and procedures are reasonably designed to prevent violations of the federal securities laws as they apply to each series. In particular, a mutual fund should review its compliance policies and procedures for the appropriate identification of "affiliated persons" with respect to each series of the mutual fund for purposes of transactions that may be prohibited under the 1940 Act.

In April 2014, the SEC issued Investment Management Guidance Update, 2014-05, *Deregistration of investment companies, applications on Form N-8F*. This Guidance Update identifies common comments on deregistration form N-8F and provides guidance for responding to these items.

In April 2014, the SEC provided via a risk alert additional information concerning its initiative to assess cybersecurity preparedness in the securities industry.

Publications of interest to mutual fund directors issued during the two years ended September 30, 2014

PwC quarterly developments for mutual fund audit committees

PwC

Independent Directors Council/Affiliates

Mutual Fund Directors Forum

Pwc quarterly developments for mutual fund audit committees during the one year ended September 30, 2014

June 30, 2014

This edition of Current Developments includes articles on the following topics:

- Money market fund reform developments
- Liquid alternatives – Operational and regulatory considerations
- FATCA – Mutual funds may need to identify a responsible officer for certain non-US entities
- Investment spotlight on sovereign debt

March 31, 2014

This edition of Current Developments includes articles on the following topics:

- A new focus on mutual fund director compensation
- Asset Management 2020: A Brave New World
- COSO framework update
- Chairman Camp's tax reform discussion draft would impact mutual funds

December 31, 2013

This edition of Current Developments includes articles on the following topics:

- Ongoing focus on distribution
- Spotlight on fair value hierarchy developments
- PCAOB reproposed certain amendments to disclose name of engagement partner and certain other participants in audits
- Proposed changes to mutual fund tax rules included in draft technical corrections bill

September 30, 2013

This edition of Current Developments includes articles on the following topics:

- Nonbank SIFIs: Up next, asset managers
- PCAOB proposes significant changes to the auditor's report
- Proposed changes to the 25-percent RIC asset diversification test

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2014 Annual Corporate Directors Survey

Disruptions abound in today's business world. Some stakeholders want boards to become more diverse, and increasingly vocal shareholders want to communicate differently with public company directors and managements.

Executive compensation remains a hot topic of debate, and boards are learning to deal with activist shareholders.

Technology is drastically altering the world of business, presenting vast new opportunities and increasingly pronounced risks.

Things are changing in the corporate governance world. New trends are starting to emerge and take hold. They're influencing perspectives and practices in the boardroom.

Learn what boards are doing in response to the trends. Board governance trends discussed in depth this year:

- Board performance and diversity
- Board priorities and practices
- IT and cybersecurity oversight
- Strategy and risk oversight
- Executive compensation and director communication

Chapters of PwC's 2014 Annual Corporate Directors Survey that address your organization's corporate board priorities can be downloaded from PwC's website.

2014 Annual CEO Survey

Asset management CEOs are increasingly optimistic this year, reflecting the recent rise in equity markets and a strong outlook for their businesses over the years to 2020. They're actively investing for growth, looking to make acquisitions, add headcount and increase technology spending.

Asset Management industry findings and analysis can be downloaded from PwC's website.

State of Compliance 2014 Financial services industry brief

The 2014 annual Compliance function survey notes four themes capturing important elements of the state of compliance in the financial services sector:

- Financial services organizations are devoting increasing attention and resources to compliance.
- There is no consensus among financial services organizations as to where the chief compliance officer (CCO) fits in the organizational chart.
- CCOs and compliance committees are challenged to better understand their organizations' business strategies, activities, and operations.
- CCOs are challenged to report compliance matters to the board and senior management in a way that supports their organizations' strategies.

Regulatory and standard-setting developments, September 2014

This document provides a summary of the activities of the FASB, SEC, and PCAOB, and describes related international developments that may be of interest to audit committees, companies, and their stakeholders. This issue highlights recent developments at the FASB on the consolidation, simplification, revenue, leasing, going concern and financial instruments projects. Updates at the SEC include the appointment of a new Chief Accountant along with internal control updates and COSO considerations. Recent developments at the PCAOB include the issuance of a staff consultation paper on the auditing of accounting estimates and fair value measurements, an update on the auditor reporting model and the issuance of a Staff Audit Practice Alert for auditing revenue.

The quarter close – Directors edition Q3, 2014

The quarter close – Directors edition is designed to keep directors informed about the latest accounting and financial reporting issues. This edition discusses the following items: (1) the new revenue standard, (2) spin-offs, (3) recognizing revenue for sales of virtual goods, (4) sale-leaseback transactions, (5) the new FASB rule requiring going concern assessment, (6) corporate governance – audit committee excellence, and more.

BoardroomDirect, September 2014

This edition includes a summary of the latest Audit Committee Excellence Series – Achieving excellence: Overseeing external auditors. It also includes short items on: (1) initiatives by two large institutional investors to boost gender diversity on boards, (2) what is important about board self-evaluations, (3) an update on Dodd-Frank Act rulemaking, and (4) FASB and PCAOB actions regarding going concern disclosures.

Audit Committee Excellence Series: Achieving excellence — Overseeing external auditors, September 2014

This edition addresses communications with the external auditor, the audit committee chair's working relationship with the lead audit partner, auditor independence, and the preapproval process for auditor services. Some other topics discussed include the external auditor relationship with internal audit; the influence of other parties, such as the PCAOB, Center for Audit Quality and proxy advisory firms; and evaluating the auditor.

In depth: FASB defines management's going concern assessment and disclosure responsibilities, September 2014

On August 27, 2014 the FASB issued a new standard — Accounting Standards Update No. 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, which defines management's going concern assessment and disclosure responsibilities. The new standard will explicitly require management to assess an entity's ability to continue as a going concern, and to provide related footnote disclosures in certain circumstances. According to the new standard, substantial doubt exists if it is probable that the entity will be unable to meet its obligations within one year after the financial statement issuance date. The likelihood threshold of "probable" is used similar to its current use in US GAAP for loss contingencies. Disclosures will be required if conditions give rise to substantial doubt. Management will need to assess if its plans will alleviate substantial doubt to determine the specific disclosures. The publication provides a summary of the key provisions.

BoardroomDirect, August 2014

This edition discusses ways to improve cybersecurity dialogue between the C-suite and the board. It also includes short items on: (1) the US Chamber of Commerce's proposed corporate disclosure recommendations, (2) highlights of the 2014 proxy season from proxy advisor Institutional Shareholder Services, (3) the PCAOB staff's consultation paper on accounting estimates and fair value standards, and (4) proposed changes to the internal audit practices framework from the Institute of Internal Auditors.

In brief: PCAOB seeks comments on auditing accounting estimates and fair value measurements, August 2014

On August 19, 2014, the PCAOB issued for public comment a staff consultation paper on standard-setting activities related to auditing accounting estimates and fair value measurements. The staff consultation paper discusses and solicits comment on certain issues related to auditing accounting estimates and fair value measurements in order to assist the PCAOB staff in evaluating whether the existing PCAOB auditing standards can and should be improved. The article provides an overview of the consultation paper.

In depth: Consolidation—a new standard is imminent, August 2014

The FASB completed deliberations on its consolidation project in July 2014 and expects to issue a final standard in the coming months. The new standard will make targeted changes to the current consolidation guidance and end the deferral granted to investment companies from applying the variable interest entities (VIE) guidance. It is primarily intended to limit the circumstances where asset managers will consolidate funds they manage, but the changes will apply to all entities. As such, consolidation conclusions, as well as applicable disclosure requirements, could change for entities in all industries. Companies involved with partnerships and investment companies may be the most affected. Since the changes impact several steps in the VIE model, all companies will need to revisit their previous consolidation analyses, which may be time consuming. In addition, companies entering into new transactions should consider the consolidation conclusions under the new guidance. The new standard will be effective in 2016 for calendar year-end public companies, and early adoption will be permitted. The article provides an overview of the expected changes.

In Brief: SEC issues final rules to reform money market funds, July 2014

On July 23, 2014, the SEC issued final rules aimed at reducing the risk of a run by investors on money market funds. The new rules mandate the use of a floating net asset value (NAV) for institutional prime money market funds. In addition, the rules provide boards the ability to impose liquidity fees, as well as implement redemption gates, for all non-government money market funds during periods of stress. The rules are not expected to alter the designation of money market funds as cash equivalents.

In the loop: EU audit reform – the impact beyond Europe, July 2014

This issue discusses how audit reform in the European Union (EU) doesn't directly apply to US companies—but certain European subsidiaries could be scoped in. The new requirements apply to subsidiaries that meet the definition of an EU public interest entity, including EU banks and insurers. The rules become effective in 2016, except for mandatory firm rotation, which is subject to a transition period. However, US multinationals should take steps now to understand if and how the legislation affects their EU subsidiaries. Complying with the requirements could be challenging and require advance planning, especially if EU statutory audits are performed by the same audit firm performing the US company consolidated audit.

Asset Management Alert: Certain total return derivatives facing increased scrutiny, July 2014

On July 22, 2014, the Senate Permanent Subcommittee on Investigations ("PSI") held a hearing entitled "Abuse of Structured Financial Products: Misusing Basket Options to Avoid Taxes and Leverage Limits." Although the purpose of the hearing was to probe the use of a particular trading strategy by certain hedge funds, it may result in increased scrutiny around total return derivatives and may further shed a negative spotlight on the industry.

Audit Committee Excellence Series: Achieving excellence — Overseeing internal audit, July 2014

This edition is about effective oversight of the internal audit function and includes discussion of directors' role in maximizing internal audit's value proposition.

Regulatory and standard-setting Developments, June 2014

This document provides a summary of the activities of the PCAOB, SEC, and FASB, and describes related international developments that are of interest to audit committees, companies, and their stakeholders. It includes some of the relevant regulations, standards, and guidance that were recently issued or are on the horizon.

Regulatory Brief: SEC sweep on liquid alternative funds, June 2014

This Regulatory Brief (a) provides background on liquid alts, (b) describes the SEC's concerns, (c) suggests areas of future exam focus, and (d) offers suggestions on what industry participants can do now to prepare.

Regulatory Brief: Asset manager SIFI designation, June 2014

This Regulatory Brief provides PwC's view that (a) asset manager SIFI designations will not occur this year, (b) the SEC's upcoming money market reform rule will play an important role in the debate, (c) the PSOC is facing increased political scrutiny as a result of the designation process, but (d) nevertheless PwC continues to believe two to four large asset managers will ultimately be proposed for designation as indicated in our prior briefs.

The Quarter Close – Directors' Edition Q2 2014, June 2014

The quarter close — Directors edition is designed to keep directors informed about the latest accounting and financial reporting issues.

This edition discusses the following items:

- Overseeing the process of going public
- Accounting for software costs
- An overview of the new discontinued operations guidance
- The latest private company accounting alternative for leases under common control
- Financial institutions prepare to comply with new regulations
- Corporate governance – audit committee excellence

In Brief: PCAOB adopts final standard on related parties and related amendments to other auditing standards, June 2014

On June 10, 2013 The PCAOB adopted Auditing Standard No. 18, Related Parties, and amendments to other auditing standards to strengthen auditor performance requirements in three critical areas of the audit: (1) related party transactions, (2) significant unusual transactions, and (3) a company's financial relationships and transactions with its executive officers. The new standard and amendments will be effective for audits of financial statements for fiscal years beginning on or after December 15, 2014, including reviews of interim financial information within these fiscal years.

In Brief: FASB amends repo accounting and enhances disclosures, June 2014

The new standard amends the accounting guidance for "repo-to-maturity" transactions and repurchase agreements executed as repurchase financings. In addition, the new standard requires a transferor to disclose more information about certain transactions, including those in which it retains substantially all of the exposure to the economic returns of the underlying transferred asset over the transaction's term. With one exception, public business entities are required to apply the accounting changes and comply with the enhanced disclosure requirements for the first interim or annual reporting period beginning after December 15, 2014. However, for repurchase and securities lending transactions reported as secured borrowings, the new standard's enhanced disclosures are effective for annual periods beginning after December 15, 2014 and interim periods beginning after March 15, 2015. A public business entity may not early adopt the standard's provisions.

In depth: The standard is final – A comprehensive look at the new revenue model, June 2014

This issue summarizes the new revenue recognition model. Accompanying the issue is an initial release of industry-specific supplements with examples and further insights into ways entities within the industry are likely to be affected by the revenue standard. Additional supplements will be released over the coming weeks.

In the loop: Reporting revenue – new model, new strategy? June 2014

This issue of discusses the newly issued revenue guidance and how it could impact a company's business practices and go-to-market strategies.

Audit Committee Excellence Series Achieving – excellence: Financial reporting oversight, May 2014

PwC's Center for Board Governance issued its second edition of the Audit Committee Excellence Series (ACES). The second edition is titled, Achieving excellence: Financial reporting oversight, and it discusses the importance of press releases covering preliminary results, considerations for audit committees before releasing results, and tips for reviewing actual filings.

Board oversight of risk: Defining risk appetite in plain English, May 2014

PwC's Center for Board Governance released Board oversight of risk: Defining risk appetite in plain English. This board-level report provides an overview of the risk appetite process, the board's role in risk appetite, and questions boards should consider asking management about risk appetite.

Five megatrends and possible implications: Directors edition, April 2014

PwC's Center for Board Governance released a "directors edition" of Five megatrends and possible implications. The publication looks at the complexities and interconnectedness of the megatrends, and the potential implications on business— now and in the future. It offers a high-level view of the megatrends for directors to discuss with their companies. The megatrends are:

- Accelerating urbanization
- Climate change and resource scarcity
- Demographic shifts
- A shift in economic power
- Technological breakthroughs

BoardroomDirect: Special Edition (ProxyPulse, first edition 2014)

PwC's Center for Board Governance released a Special Edition of BoardroomDirect, the Center's newsletter for directors and executives. The Special Edition announces ProxyPulse, first edition 2014 – a collaboration of PwC's Center for Board Governance and Broadridge Financial Solutions. ProxyPulse contains key trends from the 2013 fall "mini-season" covering the 1,066 shareholder meetings held between July 1 and December 31, 2013, along with comparative data from the 2012 fall mini-season.

Point of view: Financial statement disclosures – Enhancing their clarity and understandability, April 2014

Preparers can take actions today to make sure they are preparing clear and understandable disclosures based on the facts and circumstances. Other capital market participants also have a role to play by encouraging disclosure of only important, relevant information. Within established rules and legal requirements, exercising well-reasoned judgment to determine relevant disclosures should streamline financial statement presentation and provide users with the information that is most important for decision making. Organization, formatting and cross-referencing also can enhance navigation within the financial statements.

How does the recent FATCA guidance affect asset managers? February 2014

On February 20, 2014, the US Department of the Treasury (Treasury) and the Internal Revenue Service (IRS) issued extensive temporary regulations that (1) amend the existing final Treasury regulations implementing the Foreign Account Tax Compliance Act (FATCA) and (2) provide guidance to harmonize the FATCA rules with the existing US information reporting and withholding rules. Since February 20, the Treasury and IRS have also released the final W-8BEN-E (for foreign entities), guidance on certain intergovernmental agreement (IGA) jurisdictions, and the deferral of certain key registration dates.

Asset managers who have already begun their FATCA implementation activities should find these changes provide some welcomed relief and clarification. For many managers, however, who were waiting on the additional guidance to move forward, these regulations represent the final significant pieces of guidance to be issued. If a manager has not started preparing for FATCA already, now is the time to begin preparation to 'go live' with FATCA by July 1, 2014. Time is short until July 1, so managers should review their FATCA implementation plans and make sure that they will be ready by July.

Asset Management 2020: A Brave New World, 2014

The publication sets out how the operating landscape for asset managers will change by 2020 and explains how asset managers can prepare for the challenges ahead and turn them into competitive advantages.

The Quarter Close – Directors' Edition Q1 2014, March 2014

The quarter close — Directors edition is designed to keep directors informed about the latest accounting and financial reporting issues.

This edition discusses the following items:

- New accounting standards for private companies being adopted
- Assessing whether profit-sharing arrangements are accounted for as equity or a bonus
- Two class method of calculating earnings per share
- Accounting for new transaction types using old methods – gross versus net revenue analysis
- Allocating income taxes to separate company and carve-out financials
- New FASB developments relating to financial instruments, consolidations, and insurance projects
- Regulatory matters
- Corporate governance – cybersecurity, and more

In brief: FASB issues exposure draft of the Conceptual Framework for Financial Reporting: Notes to Financial Statements, March 2014

The FASB issued an exposure draft of the Conceptual Framework for Financial Reporting: Notes to Financial Statements (the "Proposal"). The Proposal is part of the FASB's disclosure framework project, intended to make financial statement disclosures more effective and less redundant. It details a framework to be used by the FASB in its standard-setting activities for determining what information is relevant to the users of financial statements and should be included in the notes. The framework will not only be used as a basis for establishing future disclosure requirements, but can be used to evaluate existing disclosures. Comments on the exposure draft were due by July 14, 2014.

Regulatory and standard-setting developments, March 2014

This document provides a summary of the activities of the PCAOB, SEC, and FASB, and describes related international developments that are of interest to audit committees, companies, and their stakeholders. It includes some of the relevant regulations, standards, and guidance that were recently issued or are on the horizon.

Regulatory Brief – Nonbank SIFIs: No solace for US asset managers, February 2014

Ever since the Treasury Department's Office of Financial Research ("OFR") released its report on Asset Management and Financial Stability in September 2013 ("OFR Report"), the industry has vigorously opposed its central conclusion that the activities of the asset management industry as a whole make it systemically important and may pose a risk to US financial stability. The Financial Stability Board and the International Organization of Securities Commissions issued a Consultative Document in January proposing methodologies for identifying globally active systemically important investment funds. This brief analyzes the OFR report and the Consultative Document, and concludes with our continued view that the Council will propose a few large asset managers for designation.

Key considerations for board and audit committee members, December 2013

Today's globally interconnected and competitive world means companies have ongoing challenges and opportunities. This report addresses today's changing boardroom agenda and outlines topics that can provide a basis to help enhance the quality of board and management discussions in the coming year.

The Quarter Close – Directors' Edition Q4 2013, December 2013

The quarter close — Directors edition is designed to keep directors informed about the latest accounting and financial reporting issues.

Topics featured in this edition:

- Update on the upcoming revenue recognition standard
- Structured payables programs
- Implications of government tax incentives
- Retiree health plans
- Implications of stock repurchases
- PCAOB revised proposal on disclosing information about the auditors
- SEC rule making

In Brief: PCAOB reproposes amendments to disclose name of engagement partner and certain other participants in audits, December 2013

On December 4, the Public Company Accounting Oversight Board ("PCAOB" or the "Board") reproposed for public comment amendments to the PCAOB's auditing standards (the "reproposed amendments") that would require disclosure in the auditor's report of the name of the engagement partner and information about certain other participants in the audit.

10 Minutes on service provider transparency, December 2013

Service providers play an increasingly critical role in today's competitive business model, from protecting sensitive customer data and managing technology to running essential business processes. When service providers suffer breakdowns, their clients can unwittingly violate regulations or even lose customer trust. This 10Minutes highlights that businesses may know less than they realize about their service providers' controls. Service Organization Control reports can help businesses increase confidence in their providers' critical technology systems. They may request audited Service Organizational reports to assess a service provider's controls around outsourced technology and systems supporting outsourced business processes. These reports can offer greater peace of mind around service providers, and savvy businesses can use them to distinguish themselves through their outsourcing models.

PwC Dataline: A look at current financial reporting issues – accounting for centrally cleared swaps, December 2013

Dodd-Frank Title VII (Dodd-Frank) significantly changed the trading requirements for derivative instruments, such as mandating that certain derivatives be centrally cleared. A number of financial reporting implementation questions have arisen as companies consider the Dodd-Frank requirements. These include determining fair value of centrally cleared derivatives, accounting for collateral, assessing the impact on hedge accounting, and determining the appropriate presentation (gross versus net).

This *Dataline* discusses the financial reporting implications of the new requirements, primarily focusing on end-users that trade in the affected derivatives and who do not qualify for the end-user exception.

PwC Dataline: A look at current financial reporting issues –derivative valuation, December 2013

Derivative pricing practices have evolved in recent years as market participants refine their pricing approaches to capture the elements underlying the pricing of derivative transactions in a changing market. One area that has continued to evolve relates to pricing assumptions on collateralized derivatives. For many years market participants utilized collateral on bilateral over-the-counter ("OTC") derivative transactions as a means of mitigating the credit risk of their counterparties. Following the lessons learned during the financial crisis, many market participants recognized that the funding advantages from collateral that may be rehypothecated has value that should be considered in derivative pricing.

The incorporation of these funding advantages has had a broad impact on derivative pricing as a result of the increasingly common use of collateral on derivative transactions. The increased use of collateral has been driven by an increased focus in the OTC market on credit risk and funding risk management, as well as by the migration of derivative activity to clearing houses where transactions are typically fully collateralized. As a result, certain collateralized derivatives may be presumed to require valuation based on discounting at the Overnight Indexed Swap ("OIS") rate.

The derivative pricing changes also impact uncollateralized transactions as market conventions for the way prices are quoted for reference instruments, such as interest rate swaps, have changed.

This *Dataline* addresses some of the key financial reporting implications relating to these evolving pricing conventions.

PwC Dataline: 2013 year-end financial reporting considerations – Leading practices, lessons learned, and reminders, December 2013

This *Dataline* looks at aspects of financial reporting that have continued to present challenges to financial statement preparers, and transactions and arrangements prevalent in today's economic environment that have unique or complex accounting implications.

While not an all-inclusive list, the *Dataline* provides timely reminders for companies navigating the year-end financial reporting process. While many of the topics are not new, they continue to be challenging, based on SEC staff comment letters, restatements, revisions, and our own observations.

Topics include: cash flows, other comprehensive income, revenue recognition, income taxes, segments, impairment of long-lived assets, goodwill – qualitative impairment test, variable interest entities, equity method investments, asset acquisition versus business, accounting changes and error corrections, use of overnight index swap rate in derivatives valuation, fair value hierarchy, equity-linked financing instruments, extinguishment gain when debt holder owns equity, contingencies, and stock-based compensation.

Dataline: Highlights of the 2013 AICPA National Conference on Current SEC and PCAOB Developments, December 2013

The 2013 AICPA National Conference on Current SEC and PCAOB Developments (the Conference) brought together presenters from across the accounting landscape: regulatory and standard-setting bodies, auditors, users, preparers, and industry experts.

The SEC staff provided an update on regulatory and financial reporting matters including areas of frequent comment and consultation trends. They emphasized the need for high quality, concise disclosures, focusing on ways registrants can improve communications throughout their filings. They also stressed the continued importance of internal controls over financial reporting, asking participants to remain vigilant in order to maintain the gains made over the past decade.

Quality and transparency were themes highlighted throughout the Conference, and were broadly applicable to the spectrum of conference participants. Topics on quality included both financial reporting and auditing, while transparency was discussed in the context of regulatory practices, audits, and disclosures. These themes were emphasized by speakers from the Center for Audit Quality, the SEC, and PCAOB, and echoed by others involved in the financial reporting process.

The *Dataline* provides highlights from the Conference and PwC observations.

The next generation of ETFs: Why every asset manager needs an ETF Strategy, November 2013

Exchange traded funds (ETFs) have enjoyed two decades of explosive growth. Evolving and proliferating as they attracted new users, ETFs went from a single vehicle providing exposure to large cap US equities to thousands of products representing a dizzying range of asset classes and strategies. As ETFs reshape their environment all over again, asset managers and intermediaries alike will want to have strategies in place to deal with the changes sweeping across the competitive landscape. This paper examines factors that attributed to ETF growth, recent developments and emerging trends impacting ETFs in the market, potential growth challenges, strategies to help market participants differentiate and compete in this new environment.

How global tax reforms might impact ETF efficiency: A look at the implications for ETF strategy and structuring, November 2013

Due to their low costs and potentially greater tax efficiency, ETFs offer a very efficient return to investors. ETFs' tax advantages have contributed to their strong competitive position and growth. But a rapidly changing tax environment will present challenges as governments around the globe seek to bridge budget deficits. By staying on top of these changes, sponsors can mitigate adverse effects while remaining compliant with changing global tax laws. This paper examines ETF product evolution and tax reforms impacting efficiency, market infrastructure reforms across Europe and Asia, and changes in distribution and the pursuit of scale through international expansion.

In brief: PCAOB other information proposal, October 2013

The proposed standard would apply to the auditor's responsibility with respect to other information in a company's annual report that is filed with the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934 and that contains the company's audited financial statements and the related auditor's report. As a result, it applies to other information that is incorporated by reference and is available prior to the issuance of the auditor's report but does not extend to annual reports that are distributed by other means, such as corporate websites or social media. It also does not apply to other information contained in 1933 Act registration statements.

In Brief: PCAOB proposes significant changes to the auditor's report, October 2013

The proposed standard would retain the existing pass/fail model and the basic elements of the auditor's report, but would require the auditor to report a wider range of information specific to the particular audit and auditor.

ETFs: How innovators and regulators are shaping growth in the Asset Management industry, October 2013

This paper examines the interplay between innovation and the regulators across three dimensions: Products; Markets; and Distribution. Given the fragmented nature of regulation – with a series of national regulators – the paper looks into the effect of regulations in: the United States, the European Union and Asia Pacific.

PwC Mutual Fund Directors Roundtable: 2013 highlights, October 2013

Professionals from PwC's Asset Management practice and directors from the boards of some of the nation's leading mutual fund groups gathered for informal discussions of the industry's key issues and significant challenges. These talks generated important insights into what directors are thinking about in today's evolving market place regarding valuation, risk management, board effectiveness, and other key issues.

The Connected Advisor: The Rise of Digital and Social Advice in Wealth Management, August 2013

This paper examines the four forces of change that are shaping wealth management – shifting demographics, changing client behaviors and expectations, rising technological innovations and emerging disruptive competition.

The Quarter Close – Directors' Edition Q3 2013, September 2013

The quarter close — Directors edition is designed to keep directors informed about the latest accounting and financial reporting issues.

Topics featured in this edition:

- Accounting and reporting issues for private companies that could impact public companies
- Statement of cash flows
- Entities under common control
- Contingencies
- New vice-chairman at the FASB
- PCAOB proposal on improving auditor reporting
- International developments on auditor rotation and retendering

10Minutes on whistleblower reform, July 2013

Whistleblower reform is having significant impact. The SEC's Office of the Whistleblower has one full year of operation under its belt, and with it 3,001 tips and two awards to date. Leading companies are looking closely at the Office's first-year report and drawing lessons for building stronger ethics and compliance programs. They're also considering what it takes to create a highly ethical culture. This 10Minutes highlights the importance of having an ethical culture at the workplace.

FS Viewpoint: An unsettled world: The changing world of cash equities and fixed income and how it is impacting asset managers and their service providers, January 2013

The execution to custody value chain and the players involved have remained relatively stable since the consolidation of custodial providers in the 1990s. The financial crisis and new capital and regulatory rules have forced asset managers to reduce fees and have increased the challenges for sell-side firms participating in the cash equities and fixed income execution to custody value chain. To adjust to the new market realities, asset managers are aggressively pushing to change their business models.

Key questions for board and audit committee members, 2013 edition

This publication summarizes key topics and questions board and audit committee members should ask during the year-end reporting cycle and throughout the year. Directors should consider the questions in *Key questions for board and audit committee members, 2013 edition*, as well as others they determine are relevant to the companies they serve, given their specific facts and circumstances. They should also consider questions that are routinely asked of management and the auditors at year-end.

9 New Rules of IT Strategy Asset Management, October 2012

The asset management industry is in the midst of significant structural change, with primary drivers including shifting investor preferences, pricing pressure and uncertain markets. While we see significant variation in how firms are adapting to these changes, we have identified many situations where asset management firms' business and IT strategies are at risk of misalignment.

PwC offers nine new rules for how firms can mitigate or completely eliminate misalignment risk by re-visiting commonly held and outdated wisdom on IT strategy.

Independent Directors Council/Affiliates (www.idc.org)

Board Oversight of Alternative Investments, January 2014

This paper focuses on some questions for boards to consider when overseeing funds with investment strategies that are significantly different from more traditional long-only equity and fixed income funds.

Investment Performance Oversight by Fund Boards, October 2013

This paper discusses some primary steps for overseeing a fund's portfolio structure and risks and its performance results. The paper also discusses board governance structures and processes for investment oversight and resources available to fund directors to enhance their understanding of investment management.

Considerations for Board Composition: From Recruitment Through Retirement, October 2013

The Independent Directors Council (IDC) prepared this paper to assist directors when considering these and related governance topics.

Overview of Fund Governance Practices, 1994-2012, September 2013

The overview provides common fund governance practices covering the period from 1994 through 2012, and is an update to the overview published two years previously. This overview includes information on fund assets managed by complexes that participated in each of the biennial studies, the average fund assets served per director, the average number of funds served, and selected independent director characteristics.

Board Oversight of Exchange-Traded Funds, October 2012

The Independent Directors Council (IDC) has prepared this document to assist directors of ETFs in performing their oversight responsibilities. The paper also may be useful for directors who do not currently oversee ETFs but wish to be more familiar with a board's oversight role, including those whose fund groups may currently invest in ETFs or intend to launch ETFs in the future. The paper includes practical guidance in the form of potential questions to ask in areas that may be of particular interest in the ETF context.

Audit Committee Annual Evaluation of the External Auditor, October 2012

This document assists audit committees in performing the annual evaluation of the auditor. This evaluation tool is scalable and specifically includes an examination of the auditor's independence, objectivity, and professional skepticism. It contains sample questions to gauge the quality of services provided, communications, and interaction. It also provides a sample form for obtaining input from company personnel.

Mutual Fund Directors Forum www.mfdf.com

Practical Guidance for Directors on Board Governance and Review of Investment Advisory Agreements, October 2013

This report offers recommendations to enhance the effectiveness of investment company independent directors and recommendations for the review of management agreements and fees.

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