

Current Developments for Mutual Fund Audit Committees*

Quarterly Summary
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PwC Articles & Observations for the three months ended September 30, 2007

ICI Publishes Survey on the Role of Chief Risk Officers in Larger Mutual Fund Organizations

During August 2007, the Investment Company Institute (ICI) issued “Chief Risk Officers in the Mutual Fund Industry: Who Are They and What Is Their Role Within the Organization.” It is a compilation of information based on interviews with Chief Risk Officers (CROs) from twenty of the larger mutual fund organizations that have such a position.

The messages from the survey participants include:

1. Risk is owned by all employees of mutual fund organizations.
 2. The individual business lines are in the best position to identify, analyze, monitor, mitigate and respond to the risks of their business.
 3. The Chief Legal Officer (CLO), Chief Compliance Officer (CCO) and the Internal Auditor (IA) are responsible for risks within their respective areas, and the CRO provides tools, techniques, assessment vehicles and guidance to assist them in assessing, mitigating, managing and responding to risks.
 4. CROs continue to face challenges integrating all of the regulatory, operational and business processes into a broad risk management framework in an effective and efficient manner.
- The survey provides information about the CRO’s characteristics and roles and responsibilities within their organizations, and includes the following observations about the CRO position in the industry:
- The nature and domicile of a financial service organization are strong influences over and often determinants of the organization’s decision to create a CRO position.
 - Most mutual fund organizations do not have CROs and, for those that do, the position is relatively new within the organization.
 - While CROs may come from a variety of backgrounds, their critical skills include having an understanding of the financial services business and good facilitator skills.
 - The majority of survey respondents see their role as CRO as one of providing support to management and business units on risk issues and not one involving hands-on management of risk.
 - While organizations have structured their CRO positions in a variety of ways, the vast majority of CROs find their organization’s structure to be effective.
 - The larger an organization, the more likely a CRO is to have staff — though the number of staff dedicated to the CRO in all participating organizations tends to be small.
 - The CRO function has evolved as the role of the CRO within the organization continues to mature.
 - CROs report that, in general, the responsibility for risk management rests primarily with the business units within an organization, with the CRO overseeing and coordinating risk management activities and providing professional guidance to the business units.
 - In most organizations, the CRO is actively engaged with the CLO, CCO, IA and other senior managers on risk management issues, and provides guidance on assessing, mitigating, responding to, and determining the materiality of risks.

- Most CROs use a combination of qualitative and quantitative approaches to risk management, though they tend to use a quantitative approach to assess any investment-related risks and a qualitative approach to assess operational risks.

Those interested in receiving the survey may be able to obtain it electronically through their ICI member's affiliation. Hard copies are also available from the ICI.

PricewaterhouseCoopers Observations:

A few years ago, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) published Enterprise Risk Management — Integrated Framework, which provides key principles and concepts, a common language, and direction and guidance to enable organizations to address calls for enhanced governance and risk management. Although the ICI's survey does not refer to this framework, its messages and observations are generally consistent with many of the principles and concepts included in the framework. In fact, we believe that the framework would support the observation in the survey that it is desirable to have the CRO report directly to the CEO/executive management team rather than to an operating officer. This arrangement is likely to avoid conflicts that may arise should the CRO need to raise issues related to an operations area supervised by the position the CRO reports to and also demonstrates that risk management is an organization-wide priority and the responsibility of each employee.

Selling Short Increases Risks for Fund Investors and Financial Reporting for Mutual Funds

Hedge funds and other alternative funds have adopted a number of investment techniques to boost returns and/or reduce their correlation with traditional indices. One method investment managers may use to achieve these goals is leverage — whether it is in the form of borrowing money, using derivative securities or selling securities that are borrowed (i.e., selling short).

With the increased visibility of these strategies, a number of mutual fund complexes are exploring the possibility of adapting certain hedge fund investment strategies to the mutual fund environment. Recently, you may have read about investment managers who believe that mutual fund investment performance can be enhanced by selling short those securities that they expect will underperform the market and using the proceeds to invest in securities that they expect will outperform the market. Some of these funds have been referred to as 130/30 funds because the strategy calls for the fund to be invested up to a limit of 130 percent in long positions and 30 percent in short positions. The leverage percentages may vary, however, depending on several considerations: (1) the manager's and the fund investors' appetite for the risk that short positions may not underperform the market as anticipated, (2) the manager's assessment of overall market conditions, and (3) the fund directors' assessment of the impact of leverage on the fund's ability to conduct its operations (further discussed below).

For fund directors and managers considering the use of selling short as a strategy to boost returns, certain compliance and financial reporting matters should be considered.

Compliance considerations:

Section 18 of the Investment Company Act of 1940 (the IC Act) limits the types of securities that funds may issue. Section 18 (f)(1) of the IC Act prohibits open-end investment companies (i.e., mutual funds) from issuing a senior security or selling a senior security of which it is the issuer. Section 18 permits mutual funds to borrow from a bank, provided there is asset coverage of at least 300 percent for all borrowings of the fund, and permits a fund to cure a shortfall below 300 percent (due, for example, to changes in market values or shareholder redemptions) by reducing borrowings within three business days. The applicable timeframe during which a fund can cure the shortfall may be further restricted subject to contractual arrangements with the lending bank. Therefore, it is incumbent upon the borrowing fund to develop and implement monitoring procedures enabling it to satisfy SEC requirements and contractual arrangements.

Unlimited leverage was identified as one of the major abuses of investment companies prior to the IC Act. Therefore, fund directors are expected to monitor the use of leverage for consistency with Section 18 of the IC Act. Monitoring the use of leverage involves many considerations. For example, fund directors must keep in mind that the public interest and investors are affected adversely when investment companies:

1. Fail to protect the preferences and privileges of the outstanding shareholders.
2. Increase unduly the speculative character of their junior securities (equity) by excessive borrowing and the issuance of excessive amounts of senior securities.
3. Operate without adequate assets or loss provisions.

Directors are also expected to consider whether leverage may impair a fund's ability to maintain liquid assets sufficient to meet current obligations, including redemptions, and to manage the portfolio purchase and sale activity. For example, certain strategies require assets to be pledged to brokers as collateral for the securities borrowed in order to be sold short. Prudent fund management may regularly provide fund directors with information that enables them to make an informed decision regarding these matters.

SEC guidance provides the following two means that a fund may use to mitigate its "leverage" under Section 18 of the IC Act:

1. Establish a segregated account consisting of liquid assets equal to the value of the leveraged security or transaction (with assets being physically pledged to brokers counted as part of the segregated assets).
2. Cover the security with an offsetting position.
3. For short-selling leverage, establishing a "virtual" segregated account in which securities are not physically segregated at the custodian may be the preferred means because the segregated securities are identified, earmarked in the funds' records and tracked to ensure coverage. This would require that fund management establish a process to monitor that the value of the segregated account's assets is sufficient at all times. In addition, fund management may put procedures in place to assist in substituting securities in the segregated account on a timely basis to avoid inhibiting portfolio management decisions to sell securities that are identified as segregated. For short-sale positions, the value of securities in a segregated account, plus amounts deposited with brokers as collateral (not including the proceeds of the short sale), must at least equal the market value of the securities sold short (Robertson Stephens Investment Trust no-action letter, dated August 24, 1995).

If fund management decides to sell short, they need to consider that registration statement disclosures concerning investment objectives and risks and the use of leverage, as well as other legal documents, may establish limitations on which fund management will need to regularly monitor and report. For example, management normally excludes short-sale dividend expense from the expenses subject to contractual or voluntary waivers.

Fund counsel and others may be of assistance to fund management, the CCO and directors when developing a comprehensive compliance monitoring process for funds that employ leverage.

Financial reporting considerations:

In addition to compliance monitoring, fund management may use daily financial metrics, such as asset coverage ratios, to monitor compliance with long-/short-position percentages and establish a warning process to be used when the fund is approaching the maximum permitted asset coverage ratios.

The use of selling short and other forms of leverage may add financial reporting considerations, including:

1. A statement of securities sold short at the period end date would be required in support of the liability amount in the statement of assets and liabilities or statement of net assets.
2. A statement of cash flows may be required if it is determined that the fund had more than “little or no debt” based on average debt outstanding during the period in relation to average total assets. (NOTE: By industry practice, the “little or no debt” test has been interpreted to mean average debt below approximately 10 percent of average net assets during the year.)
3. The short-sale dividend expense amount may need to be disclosed in the statement of operations and included in the fund’s expense ratio. (NOTE: Inappropriate netting of short dividend expense against dividend income, or omission of short dividends from the expense ratio, has been a frequent SEC staff comment in reviewing fund financial statements.)
4. It may be necessary to footnote and/or report financial highlight disclosures covering:
 - The use of selling short, related accounting, segregation of assets, offsetting positions and valuation policies.
 - The amount of any cash borrowings, relevant interest rates, average borrowings during the period, maximum borrowings during the period, the range of asset coverage during the period, and expense ratios including and excluding interest expense.

To stay on top of the associated risks and requirements of the increased use of leverage, including the use of short selling (or other new and creative strategies), fund management and directors must continually ask appropriate due diligence questions concerning the impact on all fund operations, including compliance requirements and financial reporting.

PwC Publishes Forensic Testing Guidance for Funds and Investment Advisers

Forensic testing is a hot topic these days for funds and investment advisers seeking ways to improve their compliance programs. And in a July 2007 publication entitled “Strengthening internal control through forensic testing,” PricewaterhouseCoopers (PwC) helps explain the growing interest and provides sound forensic testing guidance. The piece addresses important questions such as:

- How did this focus on forensic testing emerge?
- What are the SEC’s expectations of registered investment companies and investment advisers regarding forensic testing?
- How can funds and investment advisers and their service providers strengthen internal control by incorporating forensic testing into their compliance programs?

In the publication, PwC provides 10 considerations (listed below) and several illustrative forensic tests to assist CCOs and other compliance, risk management and internal audit professionals when using forensic testing in compliance programs. These considerations can also be applied more broadly as part of funds’ and investment advisers’ internal control over compliance with federal securities laws and regulations.

1. Use forensic testing for multiple purposes.
2. Incorporate more, rather than fewer, perspectives when developing tests.
3. Focus on all aspects of operations, including the activities of third-party service providers.
4. Take a fresh look at existing capabilities and skills, and supplement them if needed.
5. Evaluate current information technology systems and functionality to ensure they can support forensic testing.
6. Use forensic testing in conjunction with compliance program testing activities.
7. Establish an appropriate review structure.
8. Consider forensic test results in connection with other embedded reporting responsibilities.
9. Use forensic test results to enhance internal control.
10. Communicate test plans and results to all relevant parties.

For those interested in obtaining this new PwC publication, it is available at:

<http://www.pwc.com/extweb/pwcpublishations.nsf/docid/DF75996E24A544878525735B00550C08>

Tax Developments

Final Regulations Modify Mutual Fund Reporting of Foreign Taxes Paid to Shareholders

On August 24, 2007 the Department of Treasury issued final regulations that will reduce the information a regulated investment company (RIC) must provide to its shareholders if it has elected to pass through certain foreign taxes to its shareholders (FT election). The Investment Company Institute has sought this change for a number of years to try to reduce the burdens shareholders may encounter when reporting foreign tax credits from mutual funds on their tax returns. The final regulations also include updates for statutory changes that have occurred since the prior regulations were published.

A RIC that makes an FT election must meet an annual asset test and must satisfy other requirements. If a RIC makes an FT election, it forgoes a deduction for the amount of certain taxes paid to foreign countries. Each shareholder of the RIC then increases his or her gross income by his or her proportionate share of these taxes and treats this proportionate share of taxes as paid by the shareholder. A shareholder may then either deduct or claim as a foreign tax credit his or her proportionate share of these taxes.

Under the prior regulations, a RIC that made an FT election was required to provide its shareholders with a statement that reported, on a country-by-country basis, the shareholder's portion of the RIC's foreign source income and foreign taxes paid. As a result of changes to the foreign tax credit rules that occurred since the publication of the prior regulations, mutual fund shareholders have not needed this information to prepare their tax returns for many years. Thus, the final regulations eliminate this reporting requirement. A RIC making an FT election will, however, still need to compile country-by-country foreign source income and foreign taxes paid because the final regulations require a RIC to report this information on an aggregate basis in its tax return. Administrators who provide tax services to mutual funds will need to update their information reporting and tax return preparation processes to implement these changes.

The final regulations are effective for mutual fund taxable years ending on or after December 31, 2007. However, for a taxable year that ends on or after December 31, 2007, and begins before August 24, 2007, a taxpayer may choose to follow the prior regulations with respect to that taxable year.

Summary of Developments for the six months ended September 30, 2007

Accounting and Financial Reporting Matters From the FASB, AICPA and SEC:

On August 7, 2007, the SEC issued a concept release relating to issues surrounding the possibility of providing US issuers the option to use International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB). Comments on this proposal are due on November 13, 2007. The Commission also issued a release July 2, on proposed changes to the Commission's rules that would allow the use of IFRS in financial reports filed by foreign private issuers registered with the Commission. The approach in the proposed rule would be to give foreign private issuers a choice between IFRS and US GAAP. Comments on this release were closed on September 24, 2007.

Concept Release: <http://www.sec.gov/rules/concept/2007/33-8831.pdf>

Proposed Rule: <http://www.sec.gov/rules/proposed/2007/33-8818.pdf>

Press Release: <http://www.sec.gov/news/press/2007/2007-72.htm>

On June 28, 2007, the SEC issued a letter in response to investment funds' request for interpretive guidance on two issues regarding the implementation of FIN 48, Accounting for Uncertainty in Income Taxes. The letter addresses both matters.

First, the funds asked that they be given at least 45 days to apply the provisions of FIN 48 once a tax uncertainty is first identified, thus allowing for accurate FIN 48 accruals in NAV calculations. In response to this request, the SEC stated that uncertain tax positions should be evaluated as expeditiously as possible, and that the 45-day period suggested is not appropriate.

Second, the funds requested clarification that an investment fund need not reduce its net asset value in respect to a tax liability when it has been the administrative practice of the fund's advisor or another relevant party to pay or reimburse the fund for errors the advisor or other party has made. The SEC responded that funds should refer to generally accepted accounting principles (GAAP) for defining recognition criteria for indemnification receivables. By way of analogy to existing GAAP, an advisor's contractual obligation to indemnify uncertain tax positions of the fund generally would be sufficient demonstration that recovery is probable. Therefore, recognition of an indemnification receivable generally would be an acceptable practice where a contractual obligation to indemnify the fund exists.

http://www.sec.gov/divisions/investment/fin48_letter_062807.htm

On June 27, 2007, the SEC announced the establishment of an advisory committee that will examine the US financial reporting system with the goals of reducing unnecessary complexity and making information more useful and understandable for investors. The new SEC Advisory Committee on Improvements to Financial Reporting will be chaired by Robert C. Pozen (Chairman of MFS). The committee will study the causes of complexity and will provide recommendations to the Commission on how to make financial reports clearer and more beneficial to investors, reduce costs and unnecessary burdens for preparers, and better utilize advances in technology to enhance all aspects of financial reporting.

<http://www.sec.gov/news/press/2007/2007-123.htm>

The FASB announced on June 21, 2007, that it plans to form a resource group on valuation guidance issues. The resource group will provide the FASB with input on potential clarifying guidance on issues relating to the application of the principles of FAS 157, Fair Value Measurements, to fair value information required or permitted under US GAAP. The FASB expects to hold the first resource group meeting in the third quarter of 2007 to help the board evaluate any known FAS 157 implementation issues.

<http://www.fasb.org/news/nr062107.shtml>

Auditing Matters from the PCAOB, AICPA and SEC:

On July 25, 2007, the SEC unanimously approved Public Company Accounting Oversight Board (PCAOB) Auditing Standard No. 5, An Audit of Internal Control Over Financial Reporting That Is Integrated with an Audit of Financial Statements (AS 5). The SEC approved the standard as it was adopted by the PCAOB on May 24, 2007. AS 5, which supersedes PCAOB Auditing Standard No. 2, An Audit of Internal Control Over Financial Reporting Performed in Conjunction with an Audit of Financial Statements, is a principles-based standard designed to improve the effectiveness and efficiency of the audit of internal control over financial reporting required under Section 404 of the Sarbanes-Oxley Act of 2002. This Audit Standard will be applicable to the audits of mutual funds, although the auditor does not perform an audit of internal control over financial reporting for mutual funds. In approving AS 5, the SEC acknowledged the benefits of the new standard and the importance of successful implementation. The SEC also approved the new definition for “significant deficiency.”

<http://www.sec.gov/news/press/2007/2007-144.htm>

PCAOB Release:

http://www.pcaobus.org/Rules/Docket_021/2007-05-24_Release_No_2007-005.pdf

Compliance and Regulatory Matters from the SEC and others:

On June 20, 2007, the SEC approved the rule amendments to extend the current interactive data voluntary reporting program to enable mutual funds to voluntarily submit supplemental tagged information contained in the risk/return summary section of their prospectuses.

<http://www.sec.gov/rules/proposed/2007/33-8781.pdf>

On June 19, 2007, the SEC held its first roundtable on the merits of 12b-1 fees. Agenda items included the history, current uses, costs and benefits of 12b-1 fees, as well as a discussion on the future of these fees. Representatives from the ICI, SEC, various fund complexes and law firms, among others, participated in this event.

<http://www.sec.gov/spotlight/rule12b-1.htm>

On June 13, 2007, the ICI submitted recommendations to the SEC to amend Rule 19a-1 of the Investment Company Act of 1940. This rule regulates how a fund calculates and discloses the sources of its distributions. The ICI proposal updates this rule reflecting technological advances as well as changes in accounting and tax treatment of distributions, giving shareholders more accessibility to this information.

<http://www.sec.gov/rules/petitions/2007/petn4-542.pdf>

Summary of Developments

On May 17, 2007, SEC Chairman Christopher Cox sent letters to the ranking members of the House Financial Services Committee and the Senate Banking Committee calling for legislation to ban soft dollar arrangements. On June 26, Chairman Cox testified before Congress on this matter.

<http://www.sec.gov/news/testimony/2007/ts062607sec.htm>

In May 2007, the SEC released guidance on questions concerning the disclosure of fund of funds expenses. This Q&A document clarifies questions that arose from the amendments which require funds to disclose expenses surrounding other funds invested in.

Guidance: <http://www.sec.gov/divisions/investment/guidance/fundfundfaq.htm>

Original Adopting Release: http://www.sec.gov/divisions/investment/guidance/fundfundfaq.htm#P6_288

In a book released on April 4, 2007 entitled “Competitive Equity: A Better Way to Organize Mutual Funds” by Peter Wallison of the American Enterprise Institute and Robert Litan of the Brookings Institution, the authors offer recommendations to address a perceived competitive conundrum that they believe exists in the US mutual fund industry.

http://www.aei.org/publications/pubID.25901/pub_detail.asp

Publications of Interest to Mutual Fund Directors

Independent Directors Council/Affiliates
(<http://www.idc1.org>)

**Chief Risk Officers in the Mutual Fund Industry:
Who Are They and What is Their Role Within the
Organization?, August 2007**

This report from the ICI is a compilation of information based on interviews with Chief Risk Officers (CROs) from 20 of the larger mutual fund organizations that have such a position. See page 2 for additional information. This publication is available to ICI members. Hard copies are also available from the ICI.

**Board Oversight of Certain Service Providers,
June 2007**

<http://www.idc1.org/getPublicPDF.do?file=21229>

This report provides guidance for boards on the oversight of administrators, custodians, fund accounting agents, transfer agents and securities lending agents. The role of board oversight in selecting service providers is discussed, as well as the ongoing oversight of these providers.

Report of the Working Group on 12b-1, May 2007

http://www.ici.org/pdf/rpt_07_12b-1.pdf

This report presents the results of the Working Group's analysis and findings and the recommendations of the majority of its members relating to a broad range of distribution issues, including possible changes to Rule 12b-1.

**ICI Report on Costs of Eliminating Discretionary
Broker Voting on Uncontested Elections of Investment
Company Directors, December 2006**

http://www.ici.org/pdf/wht_broker_voting.pdf

This report assesses the impact of the NYSE proposal to the SEC eliminating discretionary broker voting on uncontested elections of directors. The ICI surveyed its members and examined the costs associated with this proposal.

Independent Director Litigation Risk, October 2006

<http://www.idc1.org>

This study assists mutual fund directors in understanding the nature of the director's litigation risk, as well as the management of such risk in private civil litigation.

Board Consideration of Fund Mergers, June 2006

<http://www.idc1.org>

In response to the increase in the number of fund mergers, this IDC Report reviews the legal standards and business considerations relating to fund mergers and offers guidance to boards considering mergers of funds.

Fair Value Series: The Role of the Board, January 2006

<http://www.idc1.org>

This second installment of the joint IDC and ICI Fair Valuation Series provides an overview of the board's role in fair valuation and examples of the do's and don'ts that directors may want to consider. This publication is available to ICI and IDC members only.

Overview of Fund Governance Practices 1994–2004, January 2006

<http://www.idc1.org>

This overview focuses on a number of mutual fund board structures and practices common across the industry, and analyzes trends over the past 10 years. In general, while individual fund boards may differ, as a group they have gravitated toward practices thought to best serve the interests of shareholders.

An Introduction to Fair Valuation, Spring 2005

<http://www.idc1.org>

This report from the IDC and ICI is the first installment of the Fair Valuation Series, and provides an overview of the issues to consider in developing and administering valuation policies and procedures.

IDC Task Force Report on Director Oversight of Mutual Funds, May 2005

<http://www.idc1.org>

This report examines the issue of independent director oversight of a number of funds within a single mutual fund complex. The report concludes that this arrangement is appropriate given the unique structure of mutual funds and the benefits director oversight of multiple funds offers to shareholders, including enhanced board effectiveness and efficiency. It also highlights some of the strategies boards use to manage the increased workload inherent in the oversight of a number of funds.

IDC Task Force Report on Board Self-Assessments, February 2005

<http://www.idc1.org>

This report addresses the requirement in the SEC's governance rules that all boards perform annual self-assessments. It provides guidance to boards implementing the requirement and outlines issues boards should consider.

IDC Task Force Report on Independent Chair Requirement, January 2005

<http://www.idc1.org>

This report addresses the requirement adopted by the SEC that all boards of funds relying on certain exemptive rules be chaired by an independent director, and provides guidance to boards as they prepare to implement the new requirement. It outlines issues boards should consider, including those relating to the responsibilities of the independent chair and the selection and compensation of the independent chair.

Mutual Fund Directors Forum

(<http://www.mfdf.com>)

Cost Implications of an Independent Chair and a 75% Independent Board, August 2005

<http://www.mfdf.com/site/documents/ReportofSurvey.pdf>

The MFDF surveyed its members on the cost implications of the SEC's changes regarding independent chair rule. Based on the responses, the MFDF found that the cost was on the low end of the SEC estimates, and the costs by fund were negligible.

Best Practices and Practical Guidance for Mutual Fund Directors, July 2004

http://www.mfdf.com/site/documents/best_pra.pdf

This report was written in response to a request from SEC Chairman Donaldson that the Forum, an organization of independent fund directors, develop written practical guidance and best practices for independent directors in areas in which director oversight and decision making is particularly critical for the protection of fund shareholders. The areas discussed include: board review of management contracts and fees; soft dollars, directed brokerage and revenue sharing arrangements; valuation and pricing; Rule 12b-1 payments; and conflicts of interest between funds and their managers.

PricewaterhouseCoopers

(<http://www.pwc.com>)

Strengthening internal control through forensic testing

<http://www.pwc.com/extweb/pwcpublishations.nsf/docid/DF75996E24A544878525735B00550C08>

This publication helps to explain the growing interest in forensic testing, while providing forensic testing guidance. See page 6 for additional information.

Similarities and differences*, A comparison of IFRS and US GAAP for Investment Funds, June 2007

<http://www.pwc.com/extweb/pwcpublishations.nsf/docid/7FD21F10E3D4300B8525730400674531>

This publication is for those who wish to gain a broad understanding of the key similarities and differences between International Financial Reporting Standards (IFRS) and accounting principles generally accepted in the United States specifically applicable to investment funds.

Current Developments for Audit Committees 2007, February 2007

<http://www.pwc.com/extweb/pwcpublishations.nsf/docid/683F292867C4348F8525728B007F4B6D>

This annual update informs Audit Committee members of current business and regulatory developments affecting their responsibilities. The 2007 report highlights the following topics: the call for transparency of information delivered to shareholders, the growing pressures on director accountability for certain key processes and decisions, and the need to address and satisfy multiple constituents inside and outside the company.

Looking Ahead: Strengthening the Structural Foundation of the US Investment Management Industry – Internal Control, January 2007

<http://www.pwc.com/extweb/pwcpublishations.nsf/docid/5449A14C8BCD471D852572E60056721B>

Our 2007 “Looking Ahead” publication describes the current environment and recent industry developments that will require continued investments in internal control to achieve financial reporting, compliance and operations objectives.

Reporting Practices of Fund Chief Compliance Officers: An Investment Management Industry Survey, August 2006

This survey contains information on the initial and important practices undertaken by fund CCOs in preparing and providing their annual (and, in some cases, interim) compliance reports. These practices, among others, pertain to the areas of focus of the annual reviews conducted, the development of the framework of the annual reports and their content, the manner in which the reports were presented and discussed with fund directors, and expectations about changes in fund

compliance programs going forward. Please contact your PwC representative for a copy of this report.

2006 Global Investment Management Survey, June 2006

<http://www.pwc.com/Extweb/onlineforms.nsf/docid/2BE83BF0B49ED3768525718E007C77D6>

The investment management industry will look very different in five years according to PricewaterhouseCoopers Global Investment Management Survey 2006, a survey of 81 investment management organizations from around the world.

Interactive data in the mutual fund industry — Your questions answered, June 2006

<http://www.pwcglobal.com/extweb/pwcpublications.nsf/docid/00118548F6099A7885257199004B9E06>

“Interactive data” is a means to improving the transparency of information, and the SEC is encouraging its use. This publication will help you determine whether interactive data should be considered by your organization.

Rethinking Postretirement Benefits, June 2006

<http://www.cfodirect.pwc.com/CFODirectWeb/Controller.jspf?ContentCode=THUG-6QCTCY&ContentType=Content>

This PwC publication offers an in-depth look at the FASB postretirement accounting project, its impact on companies and capital markets, and the changing pact with the American worker.

Audit Committee Effectiveness — What Works Best, 3rd Edition, August 2005

<http://www.pwc.com/extweb/pwcpublications.nsf/docid/ac69ad1832098eb585257045005267b1>

This report, sponsored by the Institute for Internal Auditors Research Foundation, captures how Audit Committee practices have developed and provides numerous examples of how leading Audit Committees are not just coping, but are succeeding in discharging their evolving and substantial responsibilities.

SEC

(<http://www.sec.gov>)

Audit Committees and Auditor Independence, April 2007

<http://sec.gov/info/accountants/audit042707.pdf>

This brochure published by the SEC's Office of the Chief Accountant highlights certain SEC rules and other authoritative pronouncements relevant to Audit Committee oversight responsibilities regarding the auditor's independence.

Literature Review on Independent Mutual Fund Chairs and Directors, December 2006

<http://www.sec.gov/rules/proposed/s70304/oeamemo122906-litreview.pdf>

<http://www.sec.gov/rules/proposed/s70304/oeamemo122906-powerstudy.pdf>

This is an SEC Office of Economic Analysis Memorandum prepared to review academic literature that examines the relationship between mutual fund governance (in particular, the presence of independent chairs and directors) and performance, expenses and compliance. In general, the analysis reports results to be consistent with two conclusions in the governance literature. First, boards with a greater proportion of independent directors are more likely to make decisions, such as negotiating lower adviser fees that may potentially lead to higher returns. Second, no consistent evidence exists that chair or board independence is associated with lower fees and/or higher returns for fund shareholders in the various studies performed.

A second companion Memorandum entitled "Power Study as Related to Independent Mutual Fund Chairs" examines whether the various studies performed demonstrate the existence of a statistically significant relationship between fund governance and performance, particularly with respect to board chair independence. The analysis suggests that most studies assessing the impact of chair independence on returns do not have sufficient power to reliably conclude that a relationship does or does not exist.

Exemptive Rule Amendments of 2004: The Independent Chair Condition, April 2005

<http://www.sec.gov/news/studies/indchair.pdf>

This report responds to a requirement of the Consolidated Appropriations Act of 2005 to submit a report to the Senate Appropriations Committee that: (1) provides a justification for the final rules issued requiring, as a condition for reliance on 10 exemptive rules adopted by the SEC, that a mutual fund's board of directors be chaired by an independent director; and (2) analyzes whether mutual funds chaired by independent directors perform better, have lower expenses, or have better compliance records than mutual funds chaired by interested directors. The report's conclusions include that the relationship between an independent chairperson and fund performance and fees are inconclusive, and that the Commission and its staff continue to monitor how fund boards operate with an independent chair. Two SEC Commissioners objected to the conclusions of the report and submitted separate letters to the Senate Appropriations Committee to explain their objections,

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