

New guidance on control objectives for Private Equity and Hedge Fund Managers

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Institutional investors have been unnerved by recent events. The economic crisis has resulted in returns from investments in alternative funds being lower than expected. Lehman's collapse highlighted structural problems, particularly with respect to managing liquidity and counterparty risks, and there has been an increase in fraud. These factors have led to a loss of investor trust and calls for greater transparency.

An increasing number of our alternative asset manager clients are being asked for more information about their operational controls and governance. Institutional investors are demanding an AAF 01/06 (UK) or SAS 70 (US) controls report in requests for proposals as a prerequisite to engaging alternative asset managers to manage their funds. These documents enable managers to report on the controls in place over their investment operations, and include an assurance report from an independent accountant. They have been commonplace for traditional asset managers ever since

the first standard, FRAG 21 was introduced in 1994, but until recently have been rare for alternatives.

Working together with stakeholders including the National Association of Pension Funds and service providers, the Institute of Chartered Accountants in England & Wales has recently updated its AAF 01/06 guidance "Assurance Reports on Internal Controls of Service Organisations Made Available to Third Parties". The expanded guidance now contains control objectives written specifically for private equity and hedge fund managers. Copies are available from the [ICAEW website](#).

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