

News Release

DATE: 8 October 2008

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PwC global hedge fund whitepaper puts transparency and tax issues top of agenda

PricewaterhouseCoopers today released its sixth annual global hedge fund whitepaper which reviews and summarises the regulation, taxation and distribution of hedge funds around the world.

The paper titled, 'Operational Risk: an alternative challenge', considers that investor and regulatory pressure will cause the industry to be more transparent about its operational controls with investors.

Graham Phillips, European hedge fund practice leader, PricewaterhouseCoopers, said:

"Market volatility will cause investors to ask whether they have enough knowledge and comfort over the operational risks and controls at the hedge fund manager complex responsible for their investment. This does not mean that the hedge fund manager has to make public the intricacies of the fund's investment strategies, but it does mean that the operational control environment must be sufficiently robust to withstand proper scrutiny."

"In last year's report, we predicted that the institutional money flowing into the industry would act as an impetus for more transparency and more robust control frameworks. It has been interesting to see the industry voluntarily producing its own best practice standards as it has done in the UK and as is currently being proposed in the US.

"It remains to be seen whether adherence to this self-certification framework of standards will meet both investors' and regulators' oversight and monitoring requirements."

"Institutional investors in particular, with their attendant fiduciary responsibilities, will be drawing on the recently published UK Hedge Fund Standards and the equivalent US President's Working Group best practices, to assess and benchmark whether there is an appropriate control framework in place and whether this can be demonstrated. Where institutional investors perceive deficiencies, either in policies, procedures and controls, or in demonstrating that a control framework exists and operates effectively, it is logical that such investors will ask for the deficiencies to be rectified. In fact, we expect to see many more requests of hedge fund managers to provide formal Reports on Controls, in the same way as traditional asset managers have provided to their institutional investors for many years."

Robert Mellor, UK financial services tax leader, PricewaterhouseCoopers LLP, added:

"Recent regulation, US congressional enquiries and pressure to adopt governance standards, have all increasingly challenged investors to consider and understand the tax issues associated with their underlying investment. Funds in many territories are voluntarily adapting to the standards of FIN48, one of the most significant developments on the tax scene.

"Managing tax liabilities will move centre stage as increasingly fiscally-challenged tax regimes focus more and more on cross-border capital flows. Withholdings taxes, beneficial ownership, substance and permanent establishment risk are all weapons in the armoury of tax-seeking fiscal authorities from the developed world to emerging economies."

“From an investor’s perspective, tax leakage at the portfolio level will become ever more relevant as investment performance flattens. If you save 50 bhps by better tax management then this can flow straight to the profit line.”

Notes to Editors:

For a copy of the report, 'Operational Risk: an alternative challenge' please contact Zuzana Sehnalova; E-mail: zuzana.sehnalova@sk.pwc.com.

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