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Current Developments for Mutual Fund Audit Committees
Quarterly summary

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Considerations around launching alternative investment products

The past few years have seen an increase in alternative investment structures popping up within the Registered Investment Company (RIC) space. Traditionally, the notion of alternative investments was more aligned with hedge funds and other non-SEC regulated funds. However, as the markets have continued to rebound from the financial crisis, investment managers have been looking for ways to attract and maintain investors. At the same time, post-crisis investors are fearful of losing money and are concerned about adequate cash flow, particularly with the extremely low yields available from standard investments. As a result, there has been an increasing emphasis on greater diversification of investment types and strategies, which has caused an increase in interest in alternative products and strategies. This has attracted some traditional investment managers to offerings of alternative products and, in some cases, the market is also seeing some alternative ("hedge") fund managers launch RICs. This article explores some best practices investment managers should consider when launching an alternative structure.

What is meant by "alternative"

First, it makes sense to define what is actually meant by the term "alternative." As it relates to the RIC space, the term typically means a fund or funds that provide access to asset classes not traditionally found in RICs, and may include a hefty amount of derivatives – often more complex than historically seen in RICs. Specific examples include funds that invest in commodities, distressed debt, real estate, private equities and hedge funds. Additionally, "alternative" funds may include absolute return and long/short strategies.

Before launching

A key question to consider as initial discussions are held regarding the potential launch of alternative structures is: Do we currently have the capabilities within our organization to handle the product(s)? If not, and it is determined the product should move forward, a cost assessment would be required to understand what is needed to bring the capabilities to bear.

The challenges that must be overcome in launching an alternative product will differ depending on whether a traditional RIC complex is launching an alternative product, or an alternative complex is launching a RIC. In both cases, there likely needs to be a shift in mindset as traditional RICs need to understand the nuances of increased complexity while alternative managers need to understand the nuances and requirements of the additional regulations applicable to RICs. The items most likely needing consideration by a traditional RIC complex include:

- Operational and accounting considerations – do we have the right systems, processes, and controls in place?
- Valuation considerations – do we understand how to value the investments held within the products?

- Compliance considerations – are our compliance systems equipped to handle the products? Will the strategy require us to become involved with additional regulators (e.g., CFTC for extensive derivatives use)?
- Sub-advisor considerations – if the complex requires a sub-advisor to provide day-to-day management, does the sub-advisor have adequate understanding and expertise in the various SEC and IRS requirements? Or will the complex have to provide additional oversight to supply expertise not available at the sub-advisor?
- Personnel considerations – do we have the right expertise for the products across the organization (accounting, reporting, tax, compliance, legal, etc.)?

The items most likely needing consideration by an alternative organization include:

- Compliance considerations – do we understand sufficiently the requirements of the Investment Company Act of 1940, SEC Regulation S-X, and Subchapter M of the Internal Revenue Code?
- Operational and reporting considerations – do we have the right systems in place to handle the increased reporting requirements and daily NAV calculations that are required for SEC registered products?
- Valuation considerations – do we have the appropriate structure and personnel to value investments daily? Can the investments even be valued adequately on a daily basis?
- Personnel considerations – do we have the right expertise across the organization to handle the additional compliance, accounting and reporting requirements?

To effectively launch new alternative investment products, it is best to have structure around the process itself. All functional areas that will be impacted by or involved with the product should be involved in initial discussions. The following are the likely groups to involve but, depending on specific organization structures, others may be necessary: product development, portfolio management, accounting, tax, reporting, compliance, sales and marketing, and distributor and investor services. Communication among all interested parties is key. For example, there may be a disconnect between what the product development group thinks investors are looking for compared to what the individuals actually selling the products hear that the investors want. As such, open dialogue is necessary to best align the intent of the product with the expectations of the actual investor base. Additionally, it is necessary to understand that product launches typically require significant lead time; alternative products often take more time to launch than less complex funds given the numerous considerations and discussions that are involved.

It is also important to align the structure of the product with the investment strategy. Some strategies make heavy use of extremely illiquid assets, such as private equity, hedge funds, and highly tailored OTC derivatives; others make extensive use of leverage, such as reverse repurchase agreements and other types of debt. Some of these techniques, individually or in combination, simply may be incompatible with an open-end fund providing daily liquidity to investors, making a traditional closed-end fund or an “interval” fund with periodic repurchase offers a more appropriate vehicle.

It is likely that operating an SEC-regulated alternative structure will be more expensive than in the non-SEC regulated space given the additional oversight and governance associated with a regulated fund. An actively managed alternative structure may therefore require a higher management fee than other products in a fund complex, and other expenses (e.g., custody, fund accounting, and legal expenses) may be higher as well. As such, all parties must be able to understand and articulate the reasons for the higher expenses to investors and the Board. In particular, Boards likely will require extensive information and dialogue to support a higher management fee.

It is important to determine when to involve the Board in the process. While Boards should not be overwhelmed with unnecessary data, waiting to hold initial Board discussions until after a decision to launch has been made is probably not appropriate. A key point of emphasis when discussing alternative products with the Board is how management will continue to make sure the product does what it should. Also, the Board should understand the expected asset growth time-frame. Management will further need to work with the Board to determine how and what information should be provided to the Board on an on-going basis to assist in the oversight of these products. For products and strategies using investments or techniques not previously considered by the Board, it may also be advisable for management to hold an educational session with the Board before providing them any organizational documents or agreements for approval, in order to provide Board members with the tools to effectively carry out their governance duties.

Once it is determined to launch an alternative structure, it is critical that all of the key parties have a full understanding of the product. There easily could be a disconnect between the portfolio managers' understanding of the product and the understanding of those tasked with actually selling it. The distributor must be able to articulate both the benefits and risks of the product to the potential investor.

Investor education

Of utmost importance is investor education. Historically, where alternative structures were primarily in the hedge fund world, accredited investors were the target investor. Bringing alternative structures into the RIC environment targets a much wider range of investors in terms of both wealth and investing knowledge. As such, it is important that investors understand not only the risks, benefits and costs of the product but also what the product actually invests in. Investors need to understand what the product is designed to do, the risks associated with it and in what circumstances it will perform well and in what circumstances it will perform poorly. Further, if during the initial diligence process, it seems that a product is too complex or invests in too esoteric an asset class to be readily understood by the target investor market, it may be most prudent to not launch the product; the best interest of the investors should be the focus.

Tax considerations

Of course, proper due diligence around launching alternative structures would not be complete without a full assessment of the tax considerations. Nearly all mutual funds seek to qualify as a RIC. Adherence to the RIC qualification requirements generally allows a mutual fund to avoid federal income tax. The use of alternative investment strategies can create challenges to meeting these requirements. Use of an alternative investment strategy can have implications on a fund's ability to satisfy the RIC annual gross income test, the RIC quarterly asset diversification tests, and the calculation of the amount of income a RIC must distribute annually to avoid federal taxes. The nature and range of implications will depend on the alternative investment strategy used.

To meet these challenges, organizations should perform an assessment of the tax implications and risks of an alternative investment strategy prior to beginning operations. Tax personnel with a sufficient level of expertise should execute this review. In this process a careful evaluation should be made of a strategy's impact on the RIC qualification tests. Any significant tax risks and uncertain tax positions identified in this process should be discussed with appropriate levels of management and perhaps the Board. In certain instances, the sponsor may need to build obtaining appropriate exemptive relief into the process. Alternatively, tax personnel may judge it more appropriate to elect taxation as a partnership rather than seek to qualify as a RIC given the parameters of the investment strategy; on rare occasions, the conclusion may be reached that taxation as a "normal" corporation may be the most effective strategy. Once significant tax risks are understood, policies and procedures will need to be developed. These should be designed to minimize the likelihood a fund's RIC status is jeopardized by the alternative investment strategy. Appropriate execution of these procedures may require skilled tax resources. An organization should also understand the tax impact an alternative investment strategy will have on a fund's shareholders, both in terms of the types of income generated and the complexity of individual tax reporting. For example, electing partnership taxation makes the completion of Form 1040 more complex and can, in some cases, require shareholders to file extensions in order to obtain Forms K-1 and include the related items on their returns – which itself may become a substantial marketing disincentive.

Given the current market environment and investor demands, alternative investment products are likely to become more commonplace in the RIC space. To be successful it is imperative to fully think through the implications of launching such a product. The process from initially considering launching an alternative product to the launch date should involve extensive discussions across an organization, including the Board. Proper time and diligence are required to ensure the organization fully understands the product and is equipped to successfully deliver a quality product to the market.

Mutual Fund Directors Roundtable – Contract review process

PwC invited independent directors from the boards of some of the nation's leading mutual fund complexes to participate in an informal discussion of current issues facing the industry. The exchanges, facilitated by members of PwC's asset management practice, generated important insights into what directors are thinking about in today's evolving marketplace. This article focuses on the perspectives the directors had surrounding the contract review process and provides a summary of leading practices in mutual fund oversight, explains how directors are meeting the challenges they face and provides insights into the evolving role of directors and boards in the funds industry.

Background

Section 15(c) of the Investment Company Act requires that a fund's independent directors approve the investment advisory contract by an in-person vote at a meeting called for that purpose.

The 15(c) contract review process considers a number of areas, including investment performance, the competitiveness of mutual fund costs, institutional pricing, economies of scale and adviser profitability. Within each of these areas, there are a number of factors to consider.

Directors' comments

The 15(c) contract review process is an umbrella that covers several different roles of the board. The board is constantly focused on issues related to the 15(c) process including investment performance, quality of services, competitiveness of the pricing and profitability.

At some fund complex boards, the reviews conducted as part of the 15(c) process have evolved into a year-round exercise that entails reviewing different components throughout the year. Other boards do not see it as their job to do such an intensive investigation.

Those directors who are closely involved spend significant amounts of time seeking to understand each fund, its investment style and strategy and how it is doing its job day in and day out. In a divide-and-conquer approach, the investment committee at one fund complex assigns each director a group of funds to review. Directors are expected to understand the portfolio managers' philosophies and perspectives, how they make decisions and how they are performing.

The directors also evaluate the capabilities of the advisory team to determine whether it has sufficient expertise in the types of securities in which it is investing. A team which is investing in an asset class or sector in which it has no discernable experience or expertise raises a red flag.

In concert with this, boards need to understand the adviser's rewards and compensation structure and to what extent they incentivize behavior. Is the purpose of the fund to gather assets or to provide superior performance? Some funds are asset gatherers, which can tend to blunt performance. Understanding these drivers, and determining whether they are aligned with the shareholders' interests, is a leading practice.

Another area to which directors increasingly are paying attention is how different strategies are implemented. During the dot-com boom, for example, one fund company had its managers enter into technology investments, and so had similar kinds of exposure across the entire organization, rather than just individual sector funds.

Sub-advised funds pose a different challenge. Many fund boards have a hiring process which identifies good candidates, but leave it to the management team to monitor the sub-advisers going forward. One advantage of using sub-advisers is that they are easier to dismiss for performance reasons than in-house portfolio managers. There are fewer personal considerations and less alignment of interest, since it is not the adviser's own employee.

With greater volatility and a flattening of performance during the past dozen years, some directors believe that the nature and purpose of oversight programs has changed significantly. With outperformance less easily achievable, directors are asking themselves questions such as: How should they measure performance? Is it relative or absolute performance?

Directors have serious questions about how well relative performance to an index really serves shareholders, since some fund groups have seen lagging performance in recent years despite the economic rebound. Is a fund that sees only relative performance worth keeping open? How should they measure "growth at a reasonable price"?

One possible answer is through the use of performance trend lines and moving averages, with three years seeming to be an especially favored target since analyses of individual quarters in isolation yields little useful information. This is an increasing trend among fund complexes since it can provide a more visible and conclusive view of performance, particularly against benchmarks, peers and other metrics. Even so, it is difficult to prove some things, such as momentum bets.

As one director noted, the 15(c) process is a requirement, but, whatever you do, the shareholders will vote with their feet if they are unhappy.

PwC's view

The combination of court decisions such as Jones v. Harris Associates, greater regulatory scrutiny and the increasing complexity of products, investment strategies and business models have fundamentally changed the mutual fund industry. Governance oversight, epitomized by the 15(c) process, has become more central to the operation of a fund complex. Directors have more challenges and greater responsibilities than in the past, and should respond to the demands being placed upon them. While the 15(c) process deals primarily with the management contract, other contracts, including the fund's underwriter, are also subject to annual review. However, there may be other service providers the board should examine, including custodians, fund administrators and transfer agents, to encourage them to be efficient, effective and acting in accordance with the board's directives.

Ways and Means Committee's Discussion Draft on Financial Products Tax Reform Would Have Significant Impact on Mutual Funds

Key development

On January 24, 2013, the House Ways and Means Committee released a "Discussion Draft" of a bill to reform the taxation of financial products. The Committee intends for the bill to update the tax rules to reflect modern developments in financial products. Key objectives of the Committee's reform proposals include a uniform tax treatment of financial derivatives and increased accuracy in taxpayer's determination of gain or loss on the sales of securities.

The Committee is seeking feedback from interested parties about the proposal. To date a Congressional hearing has been held and various parties, including the Investment Company Institute, have submitted comments. Following this comment period, a revised version of the Discussion Draft is expected to be considered later this year by the Ways and Means Committee as part of a comprehensive tax reform bill, addressing individual, corporate, and international tax provisions. Committee Chairman David Camp (R-MI) has indicated that he intends the forthcoming comprehensive tax reform bill to be revenue-neutral. Thus, specific provisions of the financial product Discussion Draft ultimately could be included (or dropped) as necessary to achieve revenue neutrality within this larger bill.

Why it's important

The Discussion Draft proposals would have the most impact on taxpayers, such as regulated investment companies (RICs), that execute financial transactions as part of an investment strategy. The proposals included in the Discussion Draft that are of primary interest to mutual funds and their shareholders would require that taxpayers

- Mark to market all "derivatives" (broadly defined) in a fund's portfolio on an annual basis. The resulting income or loss would be ordinary. This proposal would harmonize the tax accounting for derivatives eliminating character and timing differences that exist under current law.
- Recognize the built-in gain on a publicly traded non-derivative position on the date it becomes part of a tax straddle. The resulting gain would be capital. Thereafter, for so long as these offsetting straddle positions are held, each would be marked to market annually generating ordinary income or loss. The tax cost of hedging transactions that are considered to be tax straddles would significantly increase under this proposal.
- Apply an "average cost" methodology to compute the cost basis of securities sold by a fund. Opportunities for taxpayers to plan the tax consequences of their security sales would be significantly impacted if this proposal were adopted.

- Accrue market discount into income on a current basis. While most RICs currently accrue market discount, many mutual funds that invest primarily in tax-exempt securities do not.

These proposals, if adopted, would impact all mutual fund stakeholders with a wide range of implications that include

Changes in the risks associated with distribution requirements for funds that use derivatives.

Mutual funds must comply with distribution requirements to avoid adverse tax consequences. Uncertainties regarding the tax accounting for derivatives can create compliance risks with respect to these tests. Some uncertainties that currently exist, such as the proper tax accounting method for credit default swaps, would be eliminated if the proposal were adopted. On the other hand, the tax risk profile of other areas, such as the identification of tax straddles, would undoubtedly increase as a result of the proposals. Tax service providers may need to adjust significant tax policies and procedures related to derivatives. Inventories of uncertain tax positions would need to be updated as well.

Challenges for mutual funds that use derivatives and seek to maintain consistent periodic distributions.

Many mutual funds make distributions of net investment income to their shareholders on regular intervals (e.g., monthly or quarterly). Investors often seek consistency in the amount of these periodic distributions. If the mark to market proposal were adopted, funds that use derivatives could face increased volatility in the amount of taxable ordinary income that supports the periodic distributions. This volatility may pose challenges to funds which seek to keep periodic distribution amounts consistent while avoiding tax return of capital distributions.

Changes in the tax efficiency of mutual funds.

The proposals could increase taxes for mutual fund shareholders in at least several ways. First, a fund would no longer be able to control the amount of gain recognized on security sales by selecting the tax lots of a security being sold. Second, all mark to market gains on derivatives would be taxed at higher ordinary income tax rates. For example, the provision that allows 60 percent of gain on certain futures and options contracts to be taxed at long-term rates would be eliminated. In addition, mutual fund shareholders may lose the current tax benefit of mark to market capital losses on derivatives since it cannot carryover a net operating loss to a subsequent year.

Significant costs to develop systems to implement the law changes.

Implementing an average cost basis regime would likely be very costly, requiring significant resources to modify existing systems in a way that would allow for these calculations to occur. Additional resources would also be necessary to understand and implement changes that arise from the other proposals.

The PwC Publication, *Ways and Means "Discussion Draft" proposes major changes to taxation of financial products* contains a more in-depth discussion of the proposals and their potential impact.

Implications

As the name suggests, the Discussion Draft is designed to begin a conversation regarding the proposals. Mutual fund sponsors and service providers should familiarize themselves with the proposals and evaluate the potential impact on their product line-up and oversight responsibilities. Fund sponsors should also consider the extent to which they wish to engage in the ongoing policy discussions surrounding the proposals.

Summary of developments for the six months ended March 31, 2013

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

On April 23, 2013, FASB issued Accounting Standards Update 2013-07: Presentation of Financial Statements (Topic 205): Liquidation Basis of Accounting. The amendments require an entity to prepare its financial statements using the liquidation basis of accounting when liquidation is imminent. Liquidation is imminent when the likelihood is remote that the entity will return from liquidation and either (a) a plan for liquidation is approved by the person or persons with the authority to make such a plan effective and the likelihood is remote that the execution of the plan will be blocked by other parties or (b) a plan for liquidation is being imposed by other forces (for example, involuntary bankruptcy). If a plan for liquidation was specified in the entity's governing documents from the entity's inception (for example, limited-life entities), the entity should apply the liquidation basis of accounting only if the approved plan for liquidation differs from the plan for liquidation that was specified at the entity's inception.

The amendments require financial statements prepared using the liquidation basis of accounting to present relevant information about an entity's expected resources in liquidation by measuring and presenting assets at the amount of the expected cash proceeds from liquidation. Fair value may be a relevant measure for assets to be disposed of, but an entity should not presume that fair value is the appropriate measure of the amount an entity ultimately expects to collect. The entity should include in its presentation of assets any items it had not previously recognized under US GAAP but that it expects to either sell in liquidation or use in settling liabilities (for example, trademarks).

An entity should recognize and measure its liabilities in accordance with US GAAP that otherwise applies to those liabilities. The entity should not anticipate that it will be legally released from being the primary obligor under those liabilities, either judicially or by creditor(s). The entity also is required to accrue and separately present the costs that it expects to incur and the income that it expects to earn during the expected duration of the liquidation, including any costs associated with sale or settlement of those assets and liabilities.

Additionally, the amendments require disclosures about an entity's plan for liquidation, the methods and significant assumptions used to measure assets and liabilities, the type and amount of costs and income accrued, and the expected duration of the liquidation process.

The ASU specifically excluded investment companies registered under the Investment Company Act of 1940 from its scope as the 1940 Act requires presentation of assets at fair value, even for entities in liquidation. However, FASB specifically included non-registered investment companies within the ASU's scope, concluding that users of investment company financial statements need the same information as any other investor in an entity in liquidation about ultimate cash proceeds expected to be realized.

The amendments are effective for entities that determine liquidation is imminent during annual reporting periods beginning after December 15, 2013, and interim reporting periods therein. Entities should apply the requirements prospectively from the day that liquidation becomes imminent. Early adoption is permitted.

On January 31, 2013 the FASB issued Accounting Standards Update 2013-01 *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*. The main objective in developing this Update is to address implementation issues about the scope of Accounting Standards Update No. 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*. Stakeholders have told the Board that because the scope in Update 2011-11 is unclear, diversity in practice may result. Recent feedback from stakeholders is that standard commercial provisions of many contracts would equate to a master netting arrangement. Stakeholders questioned whether it was the Board's intent to require disclosures for such a broad scope, which would significantly increase the cost of compliance. The objective of this Update is to clarify the scope of the offsetting disclosures and address any unintended consequences. The amendments clarify that the scope of Update 2011-11 applies to derivatives accounted for in accordance with Topic 815, Derivatives and Hedging, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to an enforceable master netting arrangement or similar agreement.

An entity is required to apply the amendments for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the required disclosures retrospectively for all comparative periods presented. The effective date is the same as the effective date of Update 2011-11.

On January 15, 2013, the FASB issued Proposed ASU:*Transfers and Servicing (Topic 860): Effective Control for Transfers with Forward Agreements to Repurchase Assets and Accounting for Repurchase Financings*. through its ongoing process for monitoring capital markets for reports of significant financial reporting issues that might need to be addressed through standard setting, the Board recognized various practice issues on the application of the effective control guidance related to transfers of financial assets with an agreement that both entitles and obligates the transferor to repurchase or redeem the transferred assets. In particular, stakeholders expressed concerns about the accounting for repurchase-to-maturity agreements. Current accounting guidance distinguishes between repurchase agreements that settle at the same time as the transferred financial asset matures and those that settle before the transferred financial asset matures. However, stakeholders noted that no such distinction is warranted because the transferor retains exposure to the credit risk related to the transferred financial assets and obtains important benefits of those assets in both types of transactions.

The Board noted that the marketplace for repurchase agreements has evolved significantly since 1996 when the Board first issued guidance in this area in FASB Statement No. 125, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. Repurchase agreements have increasingly involved asset types beyond US Treasury and government agency securities. Those types of assets may be less liquid and, consequently, may affect how the transactions operate and how investors consider the risks associated with them.

The main objective in developing this proposed Update is to:

I. Clearly identify repurchase agreements, securities lending transactions, and other transactions that involve a transfer of a financial asset and an agreement that both entitles and obligates the transferor to repurchase or redeem the transferred asset that should be accounted for as financing transactions.

II. Improve the accounting and disclosures for those transactions.

The proposed amendments would require that a transfer of an existing financial asset with an agreement that both entitles and obligates the transferor to repurchase or redeem the transferred asset from the transferee with all of the following characteristics be considered to maintain the transferor's effective control over the transferred financial asset and, therefore, accounted for as a secured borrowing transaction:

I. The financial asset to be repurchased at settlement of the agreement is identical to or substantially the same as the financial asset transferred at inception or, when settlement of the forward agreement to repurchase or redeem the transferred assets is at the maturity of the transferred assets, the agreement is settled through an exchange of cash (or a net amount of cash).

II. The repurchase price is fixed or readily determinable.

III. The agreement to repurchase the transferred financial asset is entered into contemporaneously with, or in contemplation of, the initial transfer.

If the agreement fails any of the criteria listed above, it would not maintain the transferor's effective control over the transferred financial asset and the transferor would be required to assess the transfer under the remaining derecognition conditions in paragraph 860-10-40-5 to determine whether it should be accounted for as a secured borrowing or sale and a forward repurchase agreement.

The proposed amendments also would clarify the characteristics of financial assets that may be considered — substantially the same. The characteristics that must be satisfied to consider financial assets to be substantially the same should result in identifying those transactions in which the transferor is economically in the equivalent position with the return of a substantially-the-same asset compared with the return of the identical asset.

In addition, the proposed amendments would eliminate the requirement to determine whether repurchase agreements entered into as part of a repurchase financing should be accounted for separately or linked with the initial transfer for accounting purposes. Instead, a transferor would account for the initial transfer separately from the related repurchase financing that requires the financial asset to be transferred back to the initial transferor with an agreement that both entitles and obligates the initial transferee to repurchase or redeem the transferred financial asset.

The Board will establish the effective date of the requirements when it issues the final amendments.

Auditing matters from the PCAOB, AICPA, and SEC

On March 26, 2013, the Public Company Accounting Oversight Board issued for public comment a proposal for the reorganization of PCAOB auditing standards, as well as certain related amendments to its rules and standards.

The proposal provides a potential framework for reorganizing the Board's existing interim and PCAOB-issued auditing standards into a topical structure with a single integrated numbering system. The proposed reorganization is intended to present the standards in a logical order that generally follows the flow of the audit process.

Among the proposed changes, all PCAOB auditing standards would be grouped into the following categories: general auditing standards, audit procedures, auditor reporting, matters relating to filings under federal securities laws, and other matters associated with audits.

On August 15, 2012, the PCAOB released AUDITING STANDARD No. 16 – COMMUNICATIONS WITH AUDIT COMMITTEES; Auditing Standard No. 16 retains or enhances communication requirements that exist in the PCAOB's interim standards or the SEC's communication requirements and adds new communication requirements that are generally linked to performance requirements in other PCAOB standards. Among these enhancements are:

- Certain matters regarding the company's accounting policies, practices and estimates including, but not limited to, a description of processes and assumptions management used in critical estimates;
- The auditor's evaluation of the quality of the company's financial reporting;

- Information related to significant unusual transactions including the business rationale for such transactions; and
- The auditor's views regarding significant accounting or auditing matters when the auditor is aware that management consulted with other accountants about such matters and the auditor has identified a concern regarding these matters.

While existing practice or the requirements of other regulatory bodies have evolved to include communications with the audit committee beyond those required by the previous standards, the new standard incorporates these communications and provides the audit committee with additional information about significant aspects of the audit.

Many of these communications are linked to the results of audit procedures or the conduct of the audit and include:

- An overview of the overall audit strategy, including timing of the audit, significant risks the auditor identified, and significant changes to the planned audit strategy or identified risks;
- Information about the nature and extent of specialized skill or knowledge needed in the audit, the extent of the planned use of internal auditors, company personnel or other third parties, and other independent public accounting firms, or other persons not employed by the auditor that are involved in the audit;
- The basis for the auditor's determination that he or she can serve as principal auditor, if significant parts of the audit will be performed by other auditors;
- Situations in which the auditor identified a concern regarding management's anticipated application of accounting pronouncements that have been issued but are not yet effective and might have a significant effect on future financial reporting;
- Difficult or contentious matters for which the auditor consulted outside the engagement team;
- The auditor's evaluation of going concern;
- Departures from the auditor's standard report; and
- Other matters arising from the audit that are significant to the oversight of the company's financial reporting process.

The standard and related amendments, will be effective for public company audits of fiscal periods beginning after December 15, 2012.

On August 1, 2012, the PCAOB issued PCAOB Release No. 2012-003, ***INFORMATION FOR AUDIT COMMITTEES ABOUT THE PCAOB INSPECTION PROCESS***. This document is intended to assist audit committees in (1) understanding the PCAOB's inspections of their audit firms and (2) gathering useful information from their audit firms about those inspections. Some audit committees have told the Board that their audit firms provide helpful information to them about their inspection, but others have said that their auditors decline to discuss their PCAOB inspection results with them or downplay the results of any adverse findings that may be included in the report.

Information about the results of a PCAOB inspection of a company's audit, as well as more general inspection results, can help an audit committee in carrying out its oversight role. Inspection reports can help inform an audit committee about how its auditor performed on specific audits and in high-risk areas across audits.

Compliance and regulatory matters from the SEC and others

On April 17, 2012, the Investment Company Institute (ICI) and the US Chamber of Commerce filed suit against the CFTC in the US District Court in Washington to vacate the amendments, charging that the CFTC violated the Administrative Procedure Act by failing to provide an adequate explanation for its conclusions, or to perform an adequate cost-benefit analysis, in adopting the amendments. Both sides have since filed motions supporting their views, and oral arguments were heard by the Court on October 5. In December 2012, the Court rejected the ICI and Chamber of Commerce's challenge and upheld the CFTC's amendments to Rule 4.5. In response, ICI and the Chamber of Commerce filed an appeal in the US Court of Appeals for the District of Columbia Circuit. Oral arguments on the appeal were scheduled for early May, 2013.

Publications of interest to mutual fund directors issued during the three years ended March 31, 2013

Independent Directors Council/Affiliates

(www.idc1.org)

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.

Fund Board Oversight of Risk Management, September 2011

This paper primarily addresses the relationship between a fund's board and adviser and their respective roles in addressing risk issues impacting the fund. Some of the discussion may also apply to the fund's relationship with other service providers, such as the fund's administrator, principal underwriter, transfer agent, accountant, and custodian.

Mutual Fund Directors Forum

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Practical Guidance for Fund Directors on Oversight of Proxy Voting, September 2012

This report explores models of proxy voting oversight and provides context for decision points boards take into consideration when organizing their proxy oversight.

Practical Guidance for Fund Directors on the Oversight of Securities Lending, May 2012

This report provides guidance for directors on the risks associated with securities lending and how those risks might be mitigated.

Practical Guidance for Fund Directors on Valuation Oversight, June 2012

This report provides guidance for directors about their responsibilities for fund valuation.

Practical Guidance for Fund Directors on Effective Risk Management Oversight, April 2010

This report provides guidance for directors on effective risk management and the board's oversight role.

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Regulatory and Standard Setting Developments, March 2013

This document provides a high-level summary of activities of the Securities and Exchange Commission, the Financial Accounting Standards Board, the Public Company Accounting Oversight Board, and others that may be 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, both inside and outside of the US.

InBrief FASB moves forward with final standard on investment companies, March 2013

On March 13, 2013, the FASB met to discuss investment companies, a joint project with the IASB. The FASB discussed certain proposed disclosures designed to increase transparency into an investment company's interest in an investee fund. These investee fund disclosures have been the final area of focus as the FASB finalizes its standard on investment companies.

At its meeting, the FASB decided to remove the proposed disclosures from the current project and re-evaluate them at a later date. The FASB also agreed to move forward with issuing a final standard on investment companies.

The IASB issued its final standard in the form of amendments to existing IFRS standards on October 31, 2012.

The amendments focused primarily on creating a narrow exception for certain entities from the consolidation guidance.

The FASB tentatively decided on a new, converged definition for investment companies several months ago.

However, there were additional topics included in the FASB's original proposal that it continued to deliberate, including consolidation requirements for investment companies with controlling interests in underlying investee funds. The IASB did not address this topic in its final standard.

During redeliberations, the FASB decided to eliminate these proposed requirements and instead retain existing guidance for consolidation of underlying investee funds. As an alternative, however, the FASB decided to require additional disclosures for investee funds that are determined to be significant to the investment company itself.

Because these incremental disclosures were not included in the original exposure draft, the FASB directed its staff to perform targeted outreach to assist the FASB in determining whether the new disclosures should be exposed for public comment. Based on the feedback received, the FASB determined that the proposed disclosures should be removed from the existing investment companies project and re-evaluated at a later date as a stand-alone project.

The FASB plans to issue a final standard on investment companies in the near future, which will not include guidance on investee fund disclosures. It is expected that such disclosures will be revisited by the FASB as part of a stand-alone project. However, no timetable for this project has been provided.

The FASB decided at an earlier meeting that the final standard will be effective for an entity's interim and annual reporting periods in fiscal years beginning after December 15, 2013. Early adoption will be prohibited.

The Quarter Close – Directors' Edition Q1 2013, March 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:

- Leadership changes at the SEC and FASB
- Key decisions on the revenue recognition project
- The FASB's latest proposals on financial instruments
- Latest FASB releases and updates on key standard-setting projects
- Recent SEC, PCAOB, and IFRS developments
- Corporate governance matters including a preview of the 2013 proxy season

10 Minutes on Shaping the Boardroom Agenda, February 2013

Boards are adapting to an ever-changing governance environment, from continued Dodd-Frank rule making to risks and opportunities associated with emerging technologies. Directors recognize that new perspectives and continued adjustments may be necessary to fulfill their oversight obligations. This 10Minutes outlines key points from PwC's *2012 Annual Corporate Directors Survey* that illustrate how boards are working to improve their oversight.

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, firms are aggressively pushing to change their business models in a number of ways. Firms are changing their business models by:

- Eliminating product/service and geographic silos by collapsing functions and costs across multiple products/services and territories.
- Outsourcing to or combining capabilities, processes, and functions with others who possess best-in-class capabilities, scale, and/or cost • Better leveraging existing infrastructures to gain greater scale and cost efficiency from a cost-per-transaction perspective.
- Redoubling their efforts to create new capital efficient revenue growth opportunities.
- Focusing on increasing the share of wallet from existing clients. Leading firms are taking drastic action and revamping their product offerings, business models, and client relationship strategies to gain "trusted advisor" status with their target clients.

16th Annual Global CEO Survey

US CEOs are honing approaches for 2013: focusing on organic growth, their customers and ever more effective operational models. The results of this survey highlight the items that are top of mind for CEOs.

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.

The Quarter Close – Directors edition

The quarter close — Directors edition is designed to keep directors informed about the latest accounting and financial reporting issues. We create this version specifically for audit committee members and financial experts, basing it upon *The quarter close*, which is intended primarily for CFOs and Controllers.

Topics featured in this edition:

- Highlights from the AICPA National Conference on Current SEC and PCAOB Developments
- Insights into the FASB's project on disclosure effectiveness
- Accounting hot topics, including Eurozone crisis update, fair value, asset impairments, pensions, valuation allowances, and more
- Latest FASB releases and updates on key standard-setting projects
- Recent SEC, PCAOB, and IFRS developments

To the point: Current issues for boards of directors – Winter 2013

The Winter edition shares insights on:

- ***What to know about FCPA***
  The SEC and DOJ issued new guidance about the Foreign Corrupt Practices Act in an effort to provide more clarity and transparency.

- ***Cyberattacks and data security***
  Directors should understand the importance of data security and the likelihood of a cyberattack on their company.

- ***ISS's policy updates***
  The proxy advisory firm issues policy updates on executive compensation, board response to proposals with majority shareholder support, and hedging of company stock.

Regulatory & Standard Setting Developments, December 2012

This issue of *Regulatory and Standard-Setting Developments* provides a high-level summary of some of the relevant regulations, standards, and guidance that were recently issued or are on the horizon, both in and outside of the US, and other information that may be of interest to audit committees, companies, and others. Developments outside the US are important, in part because they may influence the views of US regulators, standard-setters, and other stakeholders.

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.

Directors and IT – What Works Best

Overseeing a company's information technology activities is a significant challenge for directors. The pace of change in this area is rapid, the subject matter is complicated, and the highly technical language used to describe emerging technologies and evolving risks makes this a challenging area. And many companies are relying more and more on technology to get ahead, often prompting substantial changes in how they operate. All of these factors can make the board's IT oversight responsibility appear harder than it is. This book has a framework that boards can use to help with their oversight duties.

To the point: Current issues for boards of directors: Fall 2012

This edition focuses on what directors should know about the final conflict minerals rule and the PCAOB's new standard to foster communications between auditors and audit committees. It also includes insights from our *2012 Annual Corporate Directors Survey* about what's on directors' minds.

The Quarter close: Directors edition Q3 2012, Fall 2012

This quarterly publication is intended to keep directors informed about the latest accounting and financial reporting issues.

The Q3 2012 edition focuses on the SEC's IFRS Work Plan, an update on Dodd-Frank rulemaking, and progress on FASB projects.

10Minutes on effective audit committees, Fall 2012

Audit committees, management, and auditors work together to meet the information needs of the capital markets and to promote quality audits and financial reporting. The audit committee's oversight role is particularly critical. The leading practices in *10Minutes on effective audit committees can help audit committees* continue to improve their oversight of auditors and management, thereby enhancing the quality of audits and financial reporting.

Regulatory and standard setting developments, September 2012

As potentially significant regulations and standards emerge from the Securities and Exchange Commission ("SEC"), the Financial Accounting Standards Board ("FASB"), the Public Company Accounting Oversight Board ("PCAOB" or "Board") and others, companies will want to stay ahead of the changes impacting their businesses. In particular, the changes will likely increase the demands on their people, including their audit committees, and their processes, systems, and internal controls.

This issue of *Regulatory and Standard-Setting Developments* provides a high-level summary of some of the relevant guidance, regulations, and standards that were recently issued or are being considered, both in and outside of the US.

PwC's Annual Corporate Directors Survey, Summer 2012

Corporate governance is undergoing significant change, which means directors across the country are spending more time on board work and reconsidering their oversight approach. But challenges remain. Directors expect to increase their focus on the critical areas of board composition, risk management, strategy and IT oversight. Explore our 2012 Annual Corporate Directors Survey for a deeper look into directors' views on these major issues.

Top Issues Facing Asset Managers, April 2012

Despite signs of resurgence, the asset management industry continues to face challenging markets; the implementation of regulatory reform initiatives; competition for clients and talent; and new expectations from investors, regulators, industry partners, and other stakeholders.

This paper identifies nine key challenges that the asset management industry faces:

- Governance
- Navigating risk complexity
- Navigating regulatory complexity
- Delivering cost-effective technology and operations
- FATCA and global information reporting
- Building trust and transparency
- Maximizing value from mergers & acquisitions
- Pursuing growth
- Growing and leveraging human capital

FS Viewpoint – US Asset Management: State of the Industry & Top Issues Facing Asset Managers

This paper explores what we believe to be among the key challenges facing the industry, as it continues to grapple with a number of difficult issues. The issues discussed in the paper are listed below along with the corresponding PwC specialists:

- Governance (John Griffin, Scott Sulzberger)
- Navigating Risk Complexity (Kevin Barry, Nick D'Angelo)
- Navigating Regulatory Complexity (Lori Richards, Anthony Conti, Rob Nisi)
- Delivering Cost-Effective Technology & Operations (Janet Hanson, David Steiner, Peter Horowitz)
- FATCA and Global Information Reporting (Oscar Teunissen, Tim Mueller)
- Trust & Transparency (Chris Thompson, Melanie Prusinski)
- Maximizing Value from M&A (Sam Yildirim)
- Pursuit Growth (Dan Pitchenik)
- Growing and Leveraging Human Capital (Bhushan Sethi)

The quarter close: Directors edition – Q4, January 2012

The Q4 2011 edition focuses on the European debt crisis, the FASB and IASB convergence agenda, proposals for mandatory auditor rotation, SEC views on moving to IFRS, the emerging debate on private company standard setting, impairment assessments, pension accounting, revenue recognition, tax disclosures and other key topics.

2012 Current developments for directors, December 2011

Finding direction in uncertain time
This annual publication focuses on the critical governance issues directors and senior executives face, offering information, insights, and practical guidance to help directors meet the demands of their role and enrich boardroom discussions.

This year's publication includes a special focus section on how companies worldwide address uncertainty in the markets and governments, a growing talent management problem and emerging technologies. Other sections of the book cover developments in areas such as regulatory reform, auditing standards, financial reporting, and tax reform.

Breaking Up Is Hard to Do: The Eurozone Crisis—Possible Implications and Contingency Planning for US Companies, April 2012

The current eurozone debt crisis was triggered in April 2010 when Eurostat, the European Union (EU) statistical authority, revealed that Greece's 2009 budget deficit was €32.3 billion, or 13.6% of its gross domestic product (GDP). Global markets responded to the magnitude of sovereign debt in other eurozone coun tries as investors question the ability of these countries to repay their debts.

Many forecasters question whether Greece's partial default on its debt and additional funding from the ECB and the IMF of €130 billion is a long-term fix or simply a way to delay the inevitable.

The complexity of the eurozone ecosystem and the political, financial, and cultural drivers that shape it make predicting the outcome of this crisis nearly impossible. Significant operational risks remain for US firms operating in the eurozone.

2011 US Asset Management Reward and Talent Management Survey Results, March 2012

Volatile financial markets, minimal M&A activity, global regulatory reform, and greater investor scrutiny continued to pressure asset management reward and retention strategies. Asset management HR leaders are redesigning incentive and governance structures to support evolving business objectives and grow their human capital base.

Our survey of 16 asset management firms based in the United States is designed to provide HR leaders an industry-wide view of emerging trends and best practices in the talent acquisition and retention area. We polled firms of varying sizes, from global platforms to investment boutiques, managing both alternative and traditional products, and competing in many distribution channels including retail and institutional.

Becoming FATCA Compliant – Why asset managers should prepare now, October 2011

Beginning January 1, 2013, the provisions of the Financial Account Tax Compliance Act (FATCA) will impose a 30% US withholding tax on any US-sourced income and the gross proceeds from the sale of investments that produce US-sourced interest or dividends (withholdable payments) received by any offshore fund or other foreign financial institution (FFI). This withholding tax is avoided if the FFI enters into an agreement with the US government and agrees to comply with new documentation requirements, due diligence procedures, and reporting obligations. These new requirements are aimed at detecting US tax residents that may be evading US federal income tax by holding investments directly or indirectly through an FFI.

Initiating a program now to identify and assess the critical business, tax, and operational impacts arising from FATCA will increase an asset manager's opportunity to address the business issues and implementation challenges through a complete, effective, and cost-efficient implementation program that will permit full compliance by January 1, 2013 (the effective date of FATCA's new documentation requirements, due diligence procedures, and reporting obligations).

It's Harder Than You Think: The New Reality for Managing Risk and Valuation of OTC Derivatives, October 2011

The changing landscape in the over-the-counter (OTC) derivatives market with respect to valuation, capital requirements, and counterparty and liquidity management poses significant challenges to many financial services institutions.

Addressing these areas is particularly challenging given their interconnected nature and the requirements for additional operational data not traditionally captured as part of valuation and risk management processes. Furthermore, in many cases significant infrastructure enhancements will be needed to support the flow of information across the organization and the requirement to perform complex analyses on a frequent and timely basis.

An integrated response is critical to address the competing challenges arising from the new regulatory, risk management, and market forces. Leading institutions have launched a number of initiatives to address risks relating to OTC derivatives.

To the Point: Current Issues for Board of Directors, Winter Edition January 2012

This edition discusses what to expect on "say on pay," corporate political contributions in light of the Citizens United decision, and other issues to expect in the 2012 proxy season.

To the Point: Current Issues for Board of Directors, September 2011

This edition addresses the recent developments on proxy access and how boards can prepare for the possibility of "private ordering" proxy access. It also presents an examination of auditor rotation and explores how directors are using more technology in the boardroom.

Board Effectiveness: What Works Best, 2nd Edition, December 2011

Over the past decade there has been a greater focus on the boardroom and increased pressure on board members. New areas such as technology, both in companies' strategy and potential IT risks; crisis management and reputational risk, including how organizations handle crises and how they communicate with stakeholders; and an overall increase in boardroom-shareholder engagement have made the role more demanding. These changes alongside scrutiny from shareholders, regulators, and other stakeholders, after the economic crisis that started in 2008 have made the job of the board more challenging than ever.

In the second edition of Board Effectiveness: What Works Best, authored by PwC and published by The Institute of Internal Auditors (IIA) Research Foundation, directors and governance specialists share insights on lessons learned from around the globe, including recent developments and regulations that affect boards of directors. Board Effectiveness helps directors navigate the increasingly complicated and challenging environment they face.

Audit Committee Effectiveness: What Works Best, 4th Edition, June 2011

This publication is intended to be a convenient guide providing information on topics that are most relevant to the audit committee. It is a collection of leading practices that support audit committee performance and effectiveness. It captures insights and points of view from audit committee members, financial reporting experts, governance specialists, and internal audit directors. It also incorporates survey trends, allowing you to understand the financial reporting environment and how audit committees are responding. Equally important, it includes lessons learned from the cumulative years of experience of PwC professionals from around the world.

Each chapter is intended to stand alone so you can read and understand the guidance without having to refer to other chapters. Appendix A captures the leading practices from each section and is a useful tool for audit committees when assessing their performance. The keyword index allows readers to find discussions about specific topics throughout the book.

Additionally, the practices and procedures described in the book represent suggestions for enhancing the overall performance of the committee and often go beyond applicable rules. A committee should take into consideration its own facts and circumstances when applying these practices.

The Quarter Close – Directors Edition, June 2011

This quarterly publication is designed to keep directors informed about the latest accounting and financial reporting issues. In response to directors' requests, we have developed this version specifically for audit committee members and financial experts, basing it upon *The Quarter Close*, which is intended primarily for chief financial officers and controllers. The Q2 2011 edition spotlights the FASB and IASB's continued deliberations on the joint standard-setting projects, the SEC's latest release on the possible incorporation of IFRS into the US financial reporting system, and more on Dodd-Frank and other key topics.

Avoiding the Headlines: How Financial Services Firms Can Implement Programs to Prevent Insider Trading, June 2011

Insider trading has become a top priority of prosecutors, with increased cooperation among civil and criminal regulators, in the United States and abroad. Recent civil and criminal investigations have implicated all types of firms—including hedge funds, mutual funds, and other types of asset management firms—banks, broker-dealers, public companies, law firms, and accounting firms. While it's good business, the law also requires firms to have robust compliance, supervisory, surveillance, and control measures in place to prevent and detect possible illegal insider trading. Regulators can bring enforcement action for the failure to have an adequate insider trading prevention program—even if no insider trading has occurred. With insider trading a top priority, leading firms are reviewing their existing protocols to prevent insider trading and are making changes. This publication explores how financial services firms can implement programs to prevent insider trading.

Boardroom Direct, May 2011 Issue in focus: Understanding critical trends and the CEO's agenda

One of a board's most important obligations is to engage in meaningful strategy discussions with the CEO and other senior executives. These discussions should include understanding critical trends, their impact, and how they could create opportunities for growth. The Spring 2011 edition of *Boardroom Direct* outlines key themes from PwC's 14th Annual Global CEO Survey and provides insight on what directors may want to ask the CEO, enhancing the quality of those discussions.

Spring Ahead or Fall Behind: Creating a Market-Ready ETF Operating Model, May 2011

Mutual funds are no longer the only game in town. While the United States has historically been the global trendsetter for the investment management industry, the formerly white-hot enthusiasm for mutual funds has begun to cool down. In recent years, the growth of US-listed ETFs has rapidly outpaced that of traditional investment products—a trend that is likely to continue in the United States, with Europe and Asia-Pacific following suit. This surge in ETF popularity in the eyes of investors and sponsors is due to several factors, but it pretty much boils down to this: With investors seeking lower-cost options, asset managers who do not offer ETF products may lose assets to those that do. As a result, asset managers are making ETFs a strategic component of their investment-product offerings so as to attract new assets. This publication discusses the market readiness of ETF models to meet current and future demands.

A Closer Look: Impact on Swap Data Reporting. May 2011

Swap data reporting is a cornerstone of the new derivatives regime created by the Dodd-Frank Act. In an effort to increase transparency and integrity in the derivatives markets, proposed Dodd-Frank regulations will require information about every swap or security-based swap (SBS) transaction to be sent to new swap data repositories or a government agency. This *A Closer Look* describes the proposed swap data reporting rules and suggested responses for swap market participants.

A Closer Look: Dodd-Frank at the Six Month Milestone, March 2011

As a part of our ongoing Dodd-Frank *A Closer Look* series, this special edition summarizes the key progress on Dodd-Frank at the six-month milestone.

In Brief: Boards delay timing for financial statement presentation and financial instruments with characteristics of equity projects, October 2010

At the joint board meetings on October 21 and 22, 2010, the FASB and IASB decided to further delay the time line on two joint projects: (1) financial statement presentation and (2) financial instruments with characteristics of equity. This publication provides an overview of the projects and how they are impacted.

Asset Management Valuation Survey, November 2010

PwC conducted a survey designed to gather, analyze and share information about emerging trends in the valuation governance process. The survey was designed to gather data from industry participants to help executives and other stakeholders benchmark their valuation governance practices against their peer group across the asset management industry, including the traditional/registered, alternative, private equity and venture capital, and real estate sectors. PwC polled more than 50 US-based managers of varying sizes, with 2 of the participating firms managing less than $500 million in assets and 12 of the participating firms managing more than $100 billion.

Pay to play, September 2010

On June 30, 2010, the SEC voted to adopt a new rule, Rule 206(4)-5, under the Investment Advisers Act of 1940 to address “pay-to-play” issues relating to relationships between investment advisory firms and political officials who have control over, or the ability to appoint someone to control, the investment decision making for public pension plans. The rule limits the political contributions (federal, state, and local) that investment advisers and certain current and prospective employees can make. This publication outlines the elements of the rule, recordkeeping requirements, and effective dates as well as additional considerations chief compliance officers should consider.

Point of View: Slowing down the pace of standard-setting, July 2010

The FASB and IASB are working on several joint projects designed to improve US GAAP and IFRS. These projects are part of a wider goal to converge US and International Standards in key areas by 2011. While convergence is an important component of achieving a single set of high-quality global accounting standards, some question whether the current pace and time line are realistic. PwC believes that, despite the recently announced modified strategy for certain projects, the time line is still aggressive and does not allow enough time for constituent input and the boards’ thoughtful rigorous processes to achieve the boards’ desire for high-quality output. Read this publication for additional background, analysis, and Q&A on these issues.

CBI/PricewaterhouseCoopers Financial Services Survey, June 2010

The 83rd survey shows a gentle further improvement in confidence and levels of activity, but with increasingly upbeat predictions for the coming quarter. Other encouraging signs include plans to expand headcount and an expectation that nonperforming loans will start to fall. On the downside, regulatory costs are rising fast and respondents are concerned about further deterioration in the financial markets.

Working Guide for an Investment Company's Audit Committee, June 2010

The guide presents considerations for audit committees in a number of areas, with significance to open- and closed-end funds' financial statements and their internal control, as well as matters pertaining to their relationships and communications with management and internal and independent auditors.

FS Regulatory Briefs: Fund Directors and the New Proxy Disclosure Rules, June 2010

This publication is aimed at helping directors assess how well their funds comply with the enhanced proxy and fund governance disclosure requirements. This edition addresses the actions of directors with regard to: (1) proxy disclosure enhancements, and (2) the voting of proxies for portfolio companies.

Broker-Dealer and Investment Adviser Compliance Programs – Regulatory requirements, common minimum elements, other paradigms, May 2010

Investment advisers and investment companies are required to have compliance programs pursuant to rules of the SEC, and broker-dealers are required to have compliance programs pursuant to rules imposed by FINRA. These rules have certain common features—effectively creating "minimum elements" for broker-dealer and investment advisor compliance programs. The separate regulatory requirements governing advisors' and broker-dealers' compliance programs are summarized in this publication, as well as these common "minimum elements."

The second generation of Global Investment Performance Standards, April 2010

The Global Investment Performance Standards (GIPS), which enable asset managers to voluntarily provide standardized and transparent measures of their performance, have been in effect in nearly 30 countries since 2005. Compliance with GIPS can serve as an important independent source of validation for a manager's performance. This publication provides PwC's perspective and analysis on GIPS 2010, which became effective on January 1, 2011, introducing changes that will pose additional challenges for asset managers.

Lead Directors: A study of their growing influence and importance, April 2010

This paper discusses what directors see as the most important elements of their service now and in the future.

Contact us

For more information about any of the information shared in this newsletter, please feel free to contact any of the following practice leaders, or your local PwC representative. We would welcome the opportunity to speak with you.

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