

Current developments for mutual fund audit committees

A quarterly summary

March 31, 2014



Introduction

Dear clients, colleagues and friends,

We are pleased to provide you with the most recent Current Developments for Mutual Fund Audit Committees – Quarterly summary. The latest compilation of PwC articles and observations on developments for the three months ending March 31, 2014, including a list of publications of interest to mutual fund directors, is now available.

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

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

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



Peter Finnerty
US Mutual Funds Leader

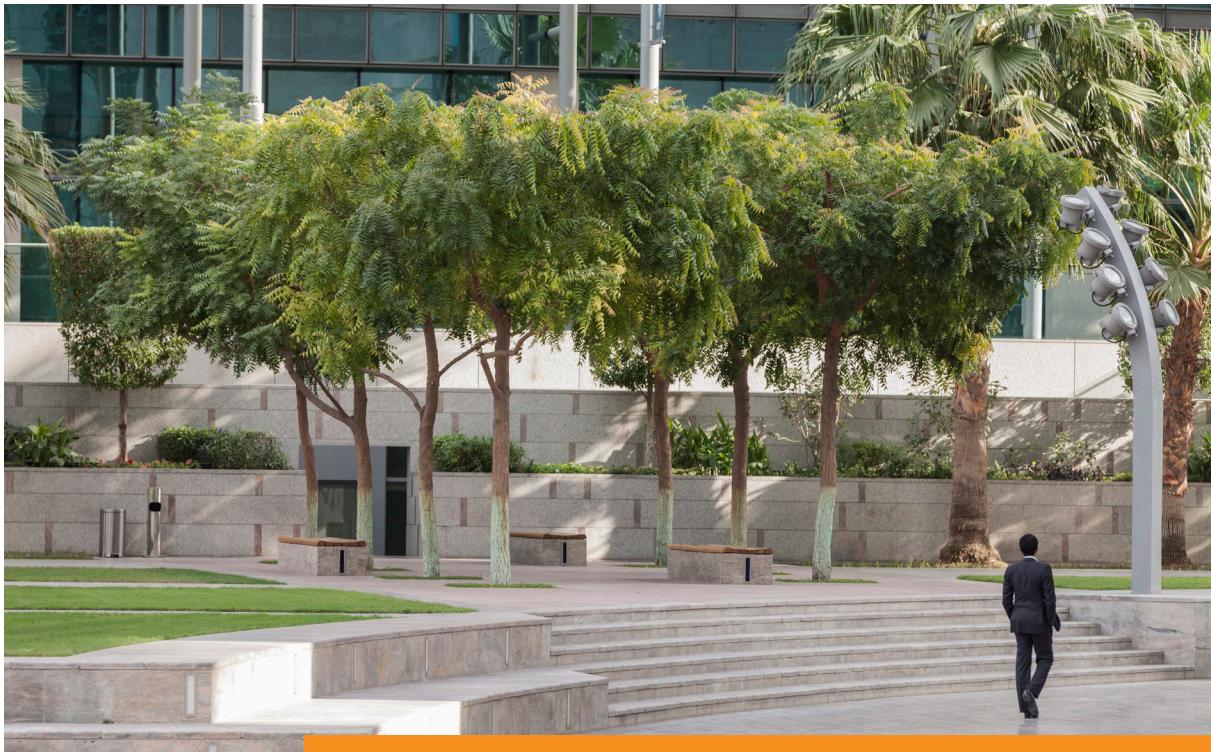


John Griffin
US Asset Management Governance Leader

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PwC articles and observations for the three months ended March 31, 2014



A new focus on mutual fund director compensation

***Asset Management 2020:
A Brave New World***

COSO framework update

Chairman Camp's tax reform discussion draft would impact mutual funds

A new focus on mutual fund director compensation

The financial crisis put mutual fund director compensation under a magnifying lens. Drops in fund values angered investors, while continuing increases in expenses exacerbated the problem. Mutual fund directors in particular found themselves in the uncomfortable position of having to balance the desire to be compensated fairly for the substantially increased time devoted to fund oversight, against the possibility that a compensation increase would be perceived as, at a minimum, insensitive to any belt-tightening fund shareholders had to make due to investment losses.

The shift in focus caused by this balancing act accelerated as directors thought about the new governance environment and risk associated with being on mutual fund boards, combined with the increasing complexity of mutual fund operations. Directors now are talking about their contribution to mutual fund company oversight as much as they are talking about workload. This has resulted in mutual fund directors re-thinking historical director compensation programs.

Typical director compensation focuses on effort

Most mutual fund director compensation programs have been similar to public company director programs. They provide for some or all of the following:

- Annual retainer
- Board meeting fees
- Committee meeting fees
- Some mutual fund companies provide an additional retainer for the board Chair/Lead Director or for Committee Chairs

As recently as five years ago, mutual fund director programs that relied on both board retainers and meeting fees were generally ubiquitous. These programs focused on attendance rather than contribution to oversight and governance, with meeting fees often representing almost 50% of the total director fees, as reflected in public filings by mutual fund organizations.

A new focus on mutual fund directors' compensation program design

The focus of mutual fund director compensation is changing as the focus on the industry is increasing. Compensation programs are recognizing what mutual fund companies and their directors recognized long ago – contribution to governance and oversight is more important than, and goes far beyond, merely attending meetings. This change in focus is consistent with other changes in governance being implemented, such as board and director evaluations.

The compensation program changes include movement away from committee meeting fees in favor of retainers. These retainers recognize that board members perform substantial work outside the meetings. Similarly, Committee Chairs are being provided with additional retainers to reflect their engagement with other Chairs and stakeholders. The Lead or Coordinating Director also is provided with an additional retainer to recognize the additional interactions with the management team and board members in governance and oversight.

PwC's research into directors' compensation based on SAI filings reflects that in just a few years, the use of committee meeting fees has decreased by approximately 20%, down to being used by about 75% of companies, with many more boards considering eliminating them as well. Similarly, directors are discussing the elimination of board meeting fees. This trend line demonstrates that the changing landscape of mutual fund director compensation may be as follows:

Current practice	Evolving practice
• Board retainer	• Higher board retainer
• Board meeting fees	• None
• Committee meeting fees	• None
• Committee retainer – limited usage	• Committee retainer – enhanced
• Committee chair retainer – limited usage	• Committee chair retainer – common
• Lead/coordinating director retainer – limited usage	• Lead/coordinating director retainer – common

Determining the right compensation level

Mutual fund directors feel the dichotomy between their substantially increased workload and the more modest increases in their compensation. They take the perspective that mere increases in workload should not result in a change in compensation – the issue revolves around the reasons for their workload increases.

Since the financial crisis, mutual fund directors are engaging in increased governance and oversight activities due to multiple stakeholder influences. As a result, they are seeing changes such as:

- Increased regulatory requirements from multiple regulators, requiring new forms of governance and oversight, and the need to understand new regulations and operating processes
- Increased mutual fund company complexity, including, the use and additional oversight of sub-advisors, and new products/services
- Increased emphasis on valuations
- Required continuing education, or at a minimum encouraging and reimbursing for continuing education

These activities not only increase the workload and required knowledge base for mutual fund directors, but also result in greater personal risk to directors from their board service.

PwC's experience with mutual fund boards reveals that directors are re-evaluating their traditional methodologies for determining appropriate compensation levels.

Historically they have looked at survey data for companies similar to theirs, using Assets Under Management ("AUM") as a proxy for workload and complexity, in the same way that public company boards look at revenue. However, focusing relatively exclusively on AUM generally ignores the changes to mutual fund director governance and oversight described above.

In order to incorporate the broad array of changes to complexity and governance, mutual fund boards are beginning to utilize more than just surveys, and more than just AUM. Many boards are creating peer groups of comparable organizations, and analyzing the specific compensation programs at those organizations. In addition to AUM, these boards also are considering other indicators of complexity and risk, such as:

- Number of funds
- Number of closed end funds
- Unified vs. cluster board structure
- Relative complexity and risk of the product portfolio
- Relative levels of sub-advised funds

Significantly, statistical analyses performed by PwC have demonstrated that these factors, when combined with AUM, have a greater correlation with director compensation than using AUM alone. The combination of metrics, along with the use of peer groups with more specifically comparable organizations, provides many directors with a greater comfort level that their compensation programs are in line with stakeholder expectations, than relying on broader surveys and a single metric.

Conclusion

The financial crisis and accompanying changes in mutual fund governance have resulted in numerous changes to mutual fund director board processes. Board member compensation is one change that has risen to greater prominence, and directors are changing the way they view the role of compensation, and how they determine the right structure and levels. Greater awareness of linking how directors perform their roles more closely to their compensation program is changing the nature of director compensation.

Asset Management 2020: A Brave New World

Amid unprecedented economic turmoil and regulatory change, most asset managers have afforded themselves little time to bring the future into focus. Today, the asset management industry stands on the precipice of a number of fundamental shifts that will dramatically re-shape the industry in the years to come.

To help asset managers plan for the future, we have considered the likely changes in the industry landscape over the coming years and identified key gamechangers that will impact the competitive environment.

In *Asset Management 2020: A Brave New World*, we present our findings. The report explores how the operating landscape for asset managers will change by 2020 and beyond and how asset managers may prepare for the challenges these changes present and turn them into competitive advantages.

The report's key messages are highlighted below. They are presented as a series of predictions for 2020, to provide guidelines for asset management industry participants to consider for the changes ahead. Please [click here](#) for more information and to read the full report.

The landscape in 2020: The industry expands, the investor base morphs

1) Huge rise in assets and shift in investor base

The rise in the volume of investable assets is set to increase from around \$64 trillion today to \$102 trillion by 2020, a compound growth rate of nearly 6%. Assets under management in the SAAAME (South America, Asia, Africa and the Middle East) economies are set to grow faster than in the developed world. Growth in assets will be driven by three key trends: the government-incentivized shift to individual retirement plans; the increase of high-net-worth individuals (HNWIs) from emerging populations; the growth of sovereign wealth funds (SWFs).

2) Pressures on the asset management industry

Alongside rising assets, there will be rising costs. The costs of complying with regulation will remain high. Commercial cost pressures will rise as firms grow their distribution networks. Fees will be under continued pressure amid the ongoing push for greater transparency and comparability. Investment in technology and data management will need to be maintained or increased to maximize distribution opportunities and to cope with regulation and reporting.

3) Nothing to hide, nowhere to hide, and nothing at risk

Full transparency over investment activity and products will exist at all levels; there will be nowhere for non-compliant managers to hide as regulatory and tax reciprocal rights criss-cross the globe. By 2020, only the plain vanilla managed accounts will remain outside regulatory reporting. By 2020, regulators will have real-time access to portfolios, cross-referenced to market data.

Gamechangers that will redefine the industry

The asset management industry will operate amid a significantly changed landscape in 2020. We believe the six gamechangers to be:

1) Asset management moves center-stage

Changing demographics and markets will thrust asset management to center-stage. Regulation will hinder banks and insurers by forcing them to wind down certain businesses. Second, as the world ages, retirement and healthcare will become critical issues that only asset management can solve. Third, asset managers will become more important in the capital raising required to support growing urbanization and cross-border trade. Fourth, asset managers will be at the center of efforts by Sovereign Wealth Funds to diversify their huge pools of assets. Messaging will need to be systematic and consistently focused on the value the asset management industry brings.

2) Distribution is redrawn – regional and global platforms dominate

Four distinct regional fund distribution blocks will have formed allowing products to be sold pan-regionally. These are: north Asia, south Asia, Latin America and Europe.

3) Fee transparency goes global

Virtually all major territories will have introduced regulation to better align interests with the end customer. The UK's Retail Distribution Review (RDR) or similar regulation on fee models will apply to all major markets, including Asia.

4) Alternatives become more mainstream, passives are core and ETFs proliferate

Alternatives and passive products together will represent 35% of assets managed by the industry. The separation between alpha and beta will accelerate as investors increase their investment allocation to passive products in search of low fees and broad beta market exposure. In some parts of the world, alternatives will move into the mainstream to the extent that "alternative" is no longer in common usage by 2020.

5) New breed of global managers emerges

The creation of new regional blocks and new fund platforms to service those blocks will place the emphasis on cost and efficiencies as never before. Economies of scale will become paramount. As a result, some of today's large global managers, as well as a handful of alternative managers, will become mega-managers with a foot in all geographies and channels. Branding and developing talent will be at the forefront for a competitive advantage.

6) Asset management enters the 21st Century

Technology will become mission critical to drive customer engagement, data mining for information on clients and potential clients, operational efficiency and regulatory and tax reporting. By 2020 most global asset managers will have a chief digital officer.

COSO framework update

Background:

In 1992 the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) released its original *Internal Control – Integrated Framework* (1992 Framework). The 1992 Framework is recognized as a leading framework for designing, implementing, conducting and assessing the effectiveness of internal control relating to operations, compliance and financial reporting objectives. Mutual funds have been on a slower adoption track because management has historically focused on implementation of internal controls at the corporate level and not at the individual fund level. In addition, the majority of mutual fund audits are not considered integrated audits, which require auditors to report on the effectiveness of an entity’s internal control over financial reporting, using the same framework as management for its annual evaluation, in addition to the audit report on the financial statements.

With that said, the boards of directors for mutual funds are required to provide effective governance and oversight of the risk management process for the funds. The updated framework is a tool boards can leverage to rethink the adequacy of the governance process.

What's new:

On May 14, 2013, COSO published the updated *Internal Control – Integrated Framework* (2013 Framework). The 2013 Framework serves to update the original 1992 Framework by incorporating concepts and material that are relevant to the increasingly complex business environment. Over the past twenty years, business and operating environments have changed dramatically, becoming increasingly complex, technologically driven, and global. At the same time, stakeholders are more engaged and seeking greater confidence in and accountability for effective internal control that support business decisions and governance of the organization.

Summary of the update:

The original 1992 Framework highlighted five components that should be considered by all organizations that seek to use the COSO framework as the basis for their internal controls risk assessment and framework. The 2013 Framework expands on the five components to include 17 principles that seek to articulate characteristics of the five components. The table below outlines the mapping of the original components to the enhanced principles:

Component of internal control	Principle per 2013 framework ¹
Control environment	Principle 1: Demonstrates Commitment to Integrity and Ethical Values <ul style="list-style-type: none">The organization demonstrates a commitment to integrity and ethical values. Principle 2: Exercises Oversight Responsibility <ul style="list-style-type: none">The board of directors demonstrates independence from management and exercises oversight of the development and performance of internal control. Principle 3: Establishes Structure, Authority, and Responsibility <ul style="list-style-type: none">Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives. Principle 4: Demonstrates Commitment to Competence <ul style="list-style-type: none">The organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives. Principle 5: Enforces Accountability <ul style="list-style-type: none">The organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives.

¹ COSO's Internal Control – Integrated Framework, Framework and Appendices issued in May 2013

Component of internal control	Principle per 2013 framework ¹
Risk assessment	<p>Principle 6: Specifies Suitable Objectives</p> <ul style="list-style-type: none"> The organization specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives. <p>Principle 7: Identifies and Analyzes Risk</p> <ul style="list-style-type: none"> The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed. <p>Principle 8: Assesses Fraud Risk</p> <ul style="list-style-type: none"> The organization considers the potential for fraud in assessing risks to the achievement of objectives. <p>Principle 9: Identifies and Analyzes Significant Change</p> <ul style="list-style-type: none"> The organization identifies and assesses changes that could significantly impact the system of internal control.
Control activities	<p>Principle 10: Selects and Develops Control Activities</p> <ul style="list-style-type: none"> The organization specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives. <p>Principle 11: Selects and Develops General Controls over Technology</p> <ul style="list-style-type: none"> The organization selects and develops general control activities over technology to support the achievement of objectives. <p>Principle 12: Deploys through Policies and Procedures</p> <ul style="list-style-type: none"> The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.
Information and communication	<p>Principle 13: Uses Relevant Information</p> <ul style="list-style-type: none"> The organization obtains or generates and uses relevant, quality information to support the functioning of internal control. <p>Principle 14: Communicates Internally</p> <ul style="list-style-type: none"> The organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control. <p>Principle 15: Communicates Externally</p> <ul style="list-style-type: none"> The organization communicates with external parties regarding matters affecting the functioning of internal control.
Monitoring	<p>Principle 16: Conducts Ongoing and/or Separate Evaluations</p> <ul style="list-style-type: none"> The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning. <p>Principle 17: Evaluates and Communicates Deficiencies</p> <ul style="list-style-type: none"> The organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate.

The 1992 Framework has become ever more difficult to implement and keep current as the day to day processes at many organizations have grown in complexity. The updated 2013 Framework serves to enhance guidance around each of the components to assist organizations with effectively evaluating whether their internal controls have kept pace with the changes in the organization.

It is important to note that the 2013 Framework is not intended to fundamentally change how internal controls are defined within the organization, but rather provide more granular guidance as management and board members work to maintain and promote an effective internal controls governance structure.

What does this mean for me?

Boards of directors should consider the update with two broad perspectives, (1) impact to board level procedures, and (2) interaction with and oversight of management. Specific content related to the Board of Directors in the updated Framework focuses on activities or procedures the board should develop to oversee the following:

- Demonstrating how the board maintains independence from management and exercises effective oversight of management's processes and controls (Principle #2)
- Oversight of management's monitoring function to assess the effectiveness of internal controls (Principle #16)
- Oversight and consideration of internal control deficiencies identified through management's monitoring processes (Principle #17)

Additionally, to enable effective interaction with management, boards should consider the full set of updated principles in their planning and strategy sessions with management. Developing a background in these areas will help to support an effective dialogue with management and ensure the requisite level of attention is paid to governance and oversight of internal controls.

Timeline & requirements:

It is important to note that while the 2013 Framework was published in May 2013, formal adoption is not required for organizations until the first fiscal year end post December 15, 2014. While COSO is not a regulatory body and cannot force companies to implement the 2013 Framework, many regulatory bodies require an organization's internal control framework to be based on a publicly available framework for purposes of the risk assessment. The 1992 Framework will no longer be available as of December 15, 2014 so organizations will be required to consider the impact of this development and assess the need for adoption.

The time to start considering the implications of this change is now. Evaluating and updating board procedures as well as establishing a communication protocol and plan with management to address considerations in the new Framework will take time. Many organizations should expect to identify gaps between the 1992 and 2013 Frameworks and will need time to consider these gaps and design controls to address each gap.

Challenges:

As stated above, the 2013 Framework does not seek to fundamentally change the assessment framework, but rather adds clarity and works to make it more relevant for today's business environment. Implementation will have its practical challenges including the performance of an accurate mapping from the old framework to the new, identification of new processes and controls necessary to fill any gaps, and applicability of the principles to the current business environment. Addressing these challenges early will provide the necessary time to thoughtfully consider the downstream implications of these changes.

Chairman Camp's tax reform discussion draft would impact mutual funds

Key development

On February 26, 2014 House Ways and Means Chairman Dave Camp released a discussion draft of a comprehensive proposal for tax reform (the "Discussion Draft"). Over the last eighteen months Chairman Camp has laid the groundwork for this proposal through earlier discussion drafts, hearings, and town halls. At nearly 1000 pages the Discussion Draft, titled the "Tax Reform Act of 2014," would significantly overhaul the current tax code for both individuals and businesses. He believes that the draft legislation would "fix America's broken tax code by lowering rates while making the code simpler and fairer for families and job creators."

Why it's important

Few taxpayers would be untouched by the Discussion Draft and mutual funds are no exception. The proposed changes that are of most interest to the fund industry include items such as changes to individual and corporate tax rates and the tax treatment of tax-exempt bonds, financial products, and tax-favored savings plans.

Individual and corporate tax rates

A key goal of the Discussion Draft was to reduce and simplify the tax rate structure. This objective would be accomplished by:

- Reducing tax rates on individuals and consolidating the seven tax brackets that currently apply into three (10%, 25%, and 35%). In addition, the reduced tax rates that currently apply to the net capital gain and qualified dividend income of an individual would be repealed. Instead, non-corporate taxpayers would be allowed an above the line deduction equal to 40% of their long term capital gains and qualified dividend income;

- Reducing the current 35% top corporate rate over five years to 25%; and
- Repealing the individual and corporate alternative minimum tax.

If adopted, it appears these changes would have a limited impact on the shareholder reporting process for mutual funds, as distributions representing items such as qualified dividend income and long-term capital gains would still need to be reported.

Tax-exempt bonds

To pay for these rate reductions the Discussion Draft proposes to limit or repeal a number of deductions and exemptions currently available to both individuals and businesses. One proposed change would limit the tax exemption for interest income earned on municipal bonds only to individuals in the 10% or 25% income bracket. A 10% surtax would apply to any municipal bond interest received by an individual in the highest tax bracket. Other changes in the Discussion Draft would also impact the municipal bond market by eliminating the future issuance of certain types of tax-exempt bonds such as private activity bonds.

It is not clear how the tax-exempt bond market would react to the changes but it has been suggested that the proposals could reduce investor demand for tax-exempt bonds and increase borrowing costs for state and local governments. Mutual fund sponsors with municipal bond products should consider evaluating how these proposals could impact their products and closely monitor future developments.

Financial products

The taxation of financial products would be significantly altered by the Discussion Draft. These proposals are intended to establish a uniform tax treatment of financial derivatives and increase the accuracy of taxpayer's determination of gain or loss on the sales of securities. The financial product related changes proposed in the Discussion Draft are, in most cases, consistent with those proposed in a earlier discussion draft.

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 a 'first-in, first-out' methodology to compute the cost basis of securities sold by a fund. This is a change from the earlier financial products discussion draft that had proposed using average cost basis. 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 operational and compliance implications.

Tax-favored savings plans

The Discussion Draft proposes numerous changes to the tax-favored retirement savings plans available to individuals under current law. Certain changes seek to simplify the code by narrowing the number of tax favored savings plans (e.g., elimination of SEP, Simple 401(k) plans, and Traditional IRAs). Other changes seek to transition individuals towards Roth style savings plans (e.g., reducing by half the existing limits on employee pre-tax contributions to 401(k) plans, the remaining half eligible to be contributed on an after-tax basis to a Roth account). Materials provided by the Way and Means Committee indicate this shift towards Roth style accounts intended to help Americans achieve greater retirement security by making more savings income available to them at retirement, since unlike previously untaxed amounts, Roth benefits are not taxed upon receipt. Collectively these changes could impact asset gathering opportunities for mutual funds and the back office operations of mutual fund service providers.

The PwC Publication "Overview of Ways and Mean's Chairman Camp's tax reform discussion draft" summarizes other significant proposed changes beyond those discussed above.

The significant election year challenges facing Congress are expected to limit the prospects of the Discussion Draft this year. Despite this the Discussion Draft has been of great interest to policymakers and stakeholders. Impacted constituents are carefully analyzing the provisions and providing comments and observations to the Ways and Means Committee.

Implications

The release of the Discussion Draft by Chairman Camp represents a significant step in presenting a possible path for reducing corporate and individual tax rates and simplifying the tax code. As discussed above, some of the changes proposed in the Discussion Draft could significantly impact mutual funds and their shareholders. Mutual fund sponsors, service providers, and other interested parties should gain an understanding of the proposals and assess whether it is in their interests to submit comments to the Ways and Means Committee.

Summary of developments for the six months ended March 31, 2014



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

On March 4, 2014, the FASB issued an exposure draft of the *Conceptual Framework for Financial Reporting: Notes to Financial Statements* (the “Proposal”). The Proposal is intended to make financial statement disclosures more effective and less redundant. It details a framework to be used by the FASB in its standard-setting activities for determining what information is relevant to the users of financial statements and should be included in the notes. The framework will not only be used as a basis for establishing future disclosure requirements, but can be used to evaluate existing disclosures. The exposure draft focuses on:

- The types of information to include in notes to financial statements
- Limitations on information in notes to financial statements
- Additional considerations for interim period disclosures

Comments are requested by July 14, 2014.

At its December 18, 2013 meeting, the FASB concluded deliberations on its repurchase agreement project, based on the January 2013 Exposure Draft, *Transfers and Servicing (Topic 860): Effective Control for Transfers with Forward Agreements to Repurchase Assets and Accounting for Repurchase Financings* (the “Exposure Draft”) finalizing certain tentative decisions and making significant changes to several others.

The FASB made the following determinations:

- **Dollar rolls:** The Board will not amend the existing guidance in ASC 860, *Transfers and Servicing*. The Board had discussed providing implementation guidance to clarify the assessment of the “substantially the same” provision within the effective control model for dollar roll transactions.
- **Repos-to-maturity:** Consistent with the Exposure Draft, repo-to-maturity transactions will be accounted for as secured borrowings. Further, a repo-to-maturity of a held-to-maturity (“HTM”) security would not taint an entity’s HTM portfolio.

- **Repurchase financings:** Consistent with the Exposure Draft, the Board decided to eliminate the current model for repurchase financings and require that repurchase agreements be accounted for separate from the original transfer.

Under current guidance, repurchase agreements entered into as part of a repurchase financing may be required to be accounted for on a “linked” basis with the original transfer and repurchase agreement analyzed as a single transaction. As a result, the purchaser may account for the transaction as a derivative instrument as opposed to a purchase and a financing.

- Additional disclosures will be required. There are separate new disclosure requirements related to:
 - » Transfers that are accounted for as a sale where the transferor retains substantially all of the exposure to the return of the transferred financial asset through an agreement done in contemplation of the initial transfer with the same transferee, and
 - » Asset quality information for repurchase and security lending transactions that are accounted for as secured borrowings.

For public business entities, the amendments will be effective for annual periods, and for interim periods within those annual periods, beginning after December 15, 2014. For all other entities, the changes will be effective for annual periods beginning after December 15, 2014, and interim periods beginning after December 15, 2015. Early adoption will not be permitted except in the case of an entity other than a public business entity, which may elect to apply the requirements for interim periods beginning after December 15, 2014. The changes will be implemented on a cumulative-effect basis.

At its October 24, 2013 meeting, the FASB tentatively decided to exclude money market funds that are registered with the SEC, as well as “similar” unregistered money market funds, from the scope of the consolidation literature. In addition, the FASB tentatively decided to rescind the 2010 deferral of the variable interest entity consolidation amendments from 2009. Many companies may not be consolidating registered and similar unregistered funds under the deferral of the adoption of the variable interest entity consolidation amendments issued in June of 2009. So

for some companies, the temporary deferral may now be a permanent scope out of the consolidation model, while for other companies, the definition of “similar” will determine whether they are required to consider the consolidation model. The effective date of the proposal has not yet been determined. The FASB has targeted the second half of 2014 to release the final standard.

Auditing matters from the PCAOB, AICPA, and SEC

In February 2014, the AICPA Accounting Standards Board (“ASB”) published Statement on Auditing Standards (SAS) No. 128, *Using the Work of Internal Auditors*. The standard was prepared as part of the ASB’s effort to apply its clarity drafting conventions and to converge the SASs with International Standards on Auditing. SAS No. 128 addresses the external auditor’s responsibilities if using the work of internal auditors. This includes (a) using the work of the internal audit function in obtaining audit evidence, and (b) using internal auditors to provide direct assistance under the direction, supervision, and review of the external auditor. SAS No. 128 is effective for audits of financial statements for periods ending on or after December 15, 2014.

In December 2013, the PCAOB issued an updated standard-setting agenda that provides a brief project overview of the PCAOB’s current standard-setting agenda and outlines key milestones on various standard-setting projects. The agenda is determined based on consideration of the results of the PCAOB’s oversight of registered public accounting firms, monitoring of the environment, consultation with the PCAOB’s Standing Advisory Group, input from the PCAOB’s Investor Advisory Group, discussion with the US Securities and Exchange Commission staff, and other factors.

On December 4, 2013, the PCAOB repropose for public comment amendments to the PCAOB’s auditing standards (the “reproposed amendments”) requiring auditors to disclose the name of the audit partner in the audit report. The revised proposal also requires audit reports to include the locations and extent of participation of other public accounting firms, and people who participated in the audit but are not employed by the audit firm. The names of the other public accounting firms would also need to be disclosed. The disclosure threshold for these participants is 5% or more of total audit hours. The reproposed amendments are applicable to audits conducted in accordance with PCAOB standards; however, the

PCAOB is soliciting comments on whether the reproposed amendments should apply to audits of emerging growth companies and audits of brokers and dealers. This most recent proposal is a follow-up to one issued by the PCAOB in October 2011. Comments initially were due February 3, 2014, but the due date was later extended to March 17, 2014.

On October 10, 2013 the PCAOB adopted Auditing Standard No. 17, *Auditing Supplemental Information Accompanying Audited Financial Statements*, which will supersede the PCAOB’s auditing standard, AU sec. 551, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents*. The Board is also adopting related amendments to certain PCAOB auditing standards.

On August 13, 2013 the PCAOB proposed for public comment a new auditing standard, *The Auditor’s Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor’s Report, and related amendments* (the “Proposed Standard”) that would require the auditor to perform additional procedures with respect to other information, and to communicate certain information in the auditor’s report. The PCAOB issued the Proposed Standard concurrently with its proposed auditing standard, *The Auditor’s Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*. The Proposed Standard would be effective, subject to approval by the SEC, for audits of financial statements for fiscal years beginning on or after December 15, 2015. Comments on the Proposed Standard were initially due on December 11, 2013. Following the PCAOB roundtable in April 2014, the comment period was reopened to May 2, 2014.

Compliance and regulatory matters from the SEC and others

In March 2014, the SEC issued Investment Management Guidance Update, 2014-04, *Guidance on the testimonial rule and social media*. This Guidance Update considers registered investment advisers’ use of social media and their publication of advertisements that feature public commentary about them that appears on independent, third-party social media sites. Through this guidance, the SEC staff seeks to clarify application of the testimonial rule as it relates to the dissemination of genuine third-party commentary that could be useful to consumers. Specifically,

the SEC staff seeks through this guidance to assist firms in applying section 206(4) of the Investment Advisers Act of 1940 (“Advisers Act”) and rule 206(4)-1(a)(1) thereunder (“testimonial rule”) to their use of social media, and assist investment advisers in developing compliance policies and procedures. Consistent with previous guidance, the SEC staff believes that in certain circumstances, an investment adviser’s or investment advisory representative’s publication of all of the testimonials about the investment adviser or IAR from an independent social media site on the investment adviser’s or IAR’s own social media site or website would not implicate the concern underlying the testimonial rule.

In February 2014, the SEC announced an initiative directed at investment advisers that have never been examined, focusing on those that have been registered with the SEC for three or more years. OCIE previously announced that examining these advisers is a priority in 2014. As part of the initiative, OCIE will conduct examinations of a significant percentage of advisers that have not been examined since they registered with the SEC. These examinations will concentrate on the advisers’ compliance programs, filings and disclosure, marketing, portfolio management, and safekeeping of client assets.

In February 2014, the SEC issued Investment Management Guidance Update, 2014-03, *Multi-manager funds—aggregate advisory fee rate*. Under the multi-manager orders, among other requirements, the aggregate fee rate payable by a fund for advisory services, both primary and subadvisory (aggregate advisory rate), remains subject to fund shareholder approval. The staff periodically receives interpretive questions about circumstances that may or may not trigger an increase in the aggregate advisory rate and necessitate shareholder approval. The staff issued this Guidance Update to assist funds in complying with this aspect of the multi-manager orders.

In February 2014, the SEC issued Investment Management Guidance Update, 2014-02, *Unbundling of proxy proposals – investment company charter amendments*. As a result of inquiries from registrants and in an effort to encourage consistent application of the rule, the SEC staff issued the Guidance Update. SEC staff has commented that proposed amendments to the charters of investment companies should be “unbundled,” providing separate votes for each proposed

material amendment. The Guidance Update provides examples of proposed material amendments that should be proposed separately.

In January 2014, the SEC issued Investment Management Guidance Update, 2014-01, *Risk management in changing fixed income market conditions*. After a brief examination of the developing trends in the fixed income market, this Guidance Update suggests certain steps that fund advisers may consider with respect to risk management and disclosure matters relating to changing market conditions. To assist fund boards in providing appropriate oversight of the funds, fund boards may want to consider discussing with fund advisers the steps these advisers are taking in this area. The Guidance Update discusses the types of information fund advisers may want to consider providing boards to facilitate this oversight function.

On January 9, 2014, the SEC announced its examination priorities for 2014. Corporate governance, conflicts of interest, enterprise risk management, as well as fraud detection and prevention at financial institutions are among the top areas of concern for the SEC’s National Examination Program (NEP) in 2014. The SEC staff said it will continue meeting with senior management and public boards to discuss how companies identify and mitigate conflicts of interest and legal, compliance, financial, and operational risks. It also plans to evaluate companies’ tone at the top. With respect to fraud detection and prevention, the NEP plans to use quantitative and qualitative tools to identify market participants engaged in fraudulent or unethical behavior.

In November 2013, the SEC issued Investment Management Guidance Update, 2013-12, *Fund names suggesting protection from loss*. This Guidance Update notes that in the staff’s view, when a mutual fund or other investment company uses a name that suggests safety or protection from loss, the name may contribute to investor misunderstanding of the risks associated with an investment in the fund and, in some circumstances, could be misleading. The staff encourages investment advisers and funds’ boards of directors to carefully evaluate any fund name that suggests safety or protection from loss and to consider whether a name change is appropriate to address any potential for investor misunderstanding.

***Publications of interest to mutual fund
directors issued during the two years
ended March 31, 2014***



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

Investment Performance Oversight by Fund Boards, October 2013

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

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

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

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

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

Board Oversight of Exchange-Traded Funds, October 2012

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

Audit Committee Annual Evaluation of the External Auditor, October 2012

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

Mutual Fund Directors Forum
www.mfdf.com

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

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

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.

How does the recent FATCA guidance affect asset managers?

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

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

Asset Management 2020: A Brave New World, 2014

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

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

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

This edition discusses the following items:

- New accounting standards for private companies being adopted
- Assessing whether profit-sharing arrangements are accounted for as equity or a bonus

- Two class method of calculating earnings per share
- Accounting for new transaction types using old methods – gross versus net revenue analysis
- Allocating income taxes to separate company and carve-out financials
- New FASB developments relating to financial instruments, consolidations, and insurance projects
- Regulatory matters
- Corporate governance – cybersecurity, and more

BoardroomDirect: Updated on current board issues, March 2014

BoardroomDirect is a monthly electronic newsletter sent to directors and executives from the PwC Center for Board Governance. This edition includes the inaugural edition of PwC's Audit Committee Excellence Series, which covers a company's forward-looking guidance practices and the potential risks associated with analysts' consensus estimates. It provides board-level perspectives regarding current trends as well as the advantages and disadvantages of providing guidance. The newsletter also includes briefs on 1) update on SEC no-action letters for 2014 season, 2) companies' succession planning, 3) the Conference Board task force on director-shareholder engagement, 4) accounting fraud on the rise at US companies, 5) SEC chief accountant to audit committees: audit quality top priority, 6) PCAOB to hold roundtable on auditor's reporting model in April.

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

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

Regulatory and standard-setting developments, March 2014

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

BoardroomDirect, February 2014

BoardroomDirect is a monthly electronic newsletter sent to directors and executives from the PwC Center for Board Governance. This edition includes an article on the latest developments on cybersecurity, along with information on the new standards framework from the US Department of Homeland Security. The newsletter also includes briefs on: 1) new shareholder proposals companies are facing in 2014, 2) the creation of an engagement protocol from a group of independent directors and investors, 3) Institutional Shareholder Services targeting director tenure in its corporate governance rating system, 4) the SEC staff issuing further guidance on the “unbundling” rule for charter amendments, 5) the PCAOB extending the comment period for its proposed lead audit partner disclosure rule, 6) FASB issuing private company alternative standards for goodwill and certain interest rate swaps.

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

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

BoardroomDirect, January 2014

BoardroomDirect is a monthly electronic newsletter sent to directors and executives from the PwC Center for Board Governance. This edition includes an in-depth discussion on board effectiveness, shareholder communications, risk oversight, and board diversity. The newsletter also includes briefs on: 1) Federal appeals court hearing on the SEC’s conflict minerals rule, 2) ISS’s release of an FAQ on corporate bylaws that disqualify prospective directors who are paid by activist shareholders, 3) CII petition asking the SEC to adopt universal proxy cards in contested elections, 4) Revision to the Volcker rule, 5) SEC staff report on public company disclosure, 6) CAQ alert on the 2013 audit cycle, 7) SEC’s 2014 examination priorities.

Key considerations for board and audit committee members, December 2013

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

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

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

Topics featured in this edition:

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

BoardroomDirect: The Audit Committee Report-An opportunity to enhance communication with stakeholders, November 2013

Center for Audit Quality has released a paper titled Enhancing the Audit Committee Report: A Call to Action. This edition examines the call to action on the importance of audit committees voluntarily and proactively enhancing their proxy report and other disclosures. The article includes comments from two corporate governance experts: one an audit committee chair and the other a corporate attorney, who explain the importance of this call to action.

In Brief: FASB reaches final conclusions on repurchase agreement project, December 2013

At its December 18, 2013 meeting, the FASB finalized certain tentative decisions reached at its last meeting, and made significant changes to several others. The Board decided not to move forward with changes related to the accounting for dollar rolls. The Board also decided to retain the disclosures highlighting “asset quality” that were proposed in the exposure draft issued in January 2013 Exposure Draft, *Transfers and Servicing (Topic 860): Effective Control for Transfers with Forward Agreements to Repurchase Assets and Accounting for Repurchase Financings*.

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

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

10 Minutes on service provider transparency, December 2013

Service providers play an increasingly critical role in today’s competitive business model, from protecting sensitive customer data and managing technology to running essential business processes. When service providers suffer breakdowns, their clients can unwittingly violate regulations or even lose customer trust. This 10Minutes highlights that

businesses may know less than they realize about their service providers’ controls. Service Organization Control reports can help businesses increase confidence in their providers’ critical technology systems. They may request audited Service Organizational reports to assess a service provider’s controls around outsourced technology and systems supporting outsourced business processes. These reports can offer greater peace of mind around service providers, and savvy businesses can use them to distinguish themselves through their outsourcing models.

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

Dodd-Frank Title VII (Dodd-Frank) significantly changed the trading requirements for derivative instruments, such as mandating that certain derivatives be centrally cleared. A number of financial reporting implementation questions have arisen as companies consider the Dodd-Frank requirements. These include determining fair value of centrally cleared derivatives, accounting for collateral, assessing the impact on hedge accounting, and determining the appropriate presentation (gross versus net). This *Dataline* discusses the financial reporting implications of the new requirements, primarily focusing on end-users that trade in the affected derivatives and who do not qualify for the end-user exception.

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

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

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

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

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

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

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

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

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

Regulatory and standard-setting Developments, December 2013

This document provides a summary of the activities of the PCAOB, SEC, and FASB, and describes related international developments that are of interest to audit committees, companies, and their stakeholders. A number of the topics were discussed at the AICPA Conference on Current SEC and PCAOB Developments.

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

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

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

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

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

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

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

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

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

In Brief: Revenue recognition – Boards wrap up redeliberations, October 2013

The FASB and IASB (the “boards”) met to finalize the outstanding issues related to their joint revenue recognition project. The decisions by the boards are tentative and subject to change, but the boards do not intend to jointly discuss revenue again and expect to issue a final revenue standard in late 2013 or early 2014.

Key decisions were made regarding:

- Constraint on variable consideration including sales- or usage-based royalties

- Licenses
- Collectibility

The FASB decided the final standard will be effective for annual reporting periods beginning after December 15, 2016 for public entities and after December 15, 2017 for non-public entities, with no early adoption permitted. The IASB decided the final standard will be effective for the first interim period within annual reporting periods beginning on or after January 1, 2017, and will allow early adoption.

A final standard is expected in 2014.

In brief: Most money market funds to be scoped out of Consolidation, October 2013

At its October 24, 2013 meeting, the FASB tentatively decided to exclude money market funds that are registered with the SEC, as well as certain unregistered money market funds from the scope of the consolidation guidance. The effective date of the proposal has not yet been determined.

In brief: PCAOB other information proposal, October 2013

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

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

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

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

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

PwC Mutual Fund Directors Roundtable: 2013 highlights, October 2013

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

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

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

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

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

Topics featured in this edition:

- Accounting and reporting issues for private companies that could impact public companies
- Statement of cash flows
- Entities under common control

- Contingencies
- New vice-chairman at the FASB
- PCAOB proposal on improving auditor reporting
- International developments on auditor rotation and retendering

PwC's 2013 Annual Corporate Directors Survey Strategy and risk management and regulatory and governance environment, September 2013

PwC reports many directors believe recent regulatory and enforcement initiatives have failed to achieve increased investor protections, improve public trust in the corporate sector, or enhance transparency to stakeholders.

Key survey findings include:

- Directors skeptical of regulatory and enforcement initiatives. Nearly two-thirds of directors (64%) believe recent regulatory and enforcement initiatives have not increased investor protections, and 77% don't believe they have increased public trust in the corporate sector. In addition, 51% think these efforts have not enhanced transparency to stakeholders "very much" or at all.
- Costs of regulation exceed benefits. Nearly three-fourths of directors feel that increased regulation and enforcement initiatives have added costs to the company that exceed benefits, and 56% believe they have at least somewhat put excessive burdens on directors.
- Director and CEO views on who influences company strategy. CEOs see more influence by the media and supply chain partners than directors do. Directors see somewhat more influence from investors and creditors, and say they are more concerned about the government impairing growth prospects.
- More comfort with risk oversight. The percentage of directors who feel there is a clear allocation of risk oversight responsibilities among the board and its committees improved by 17 points over the prior year. Half of those who say there is clarity believe it still could be improved.

PwC's 2013 Annual Corporate Directors Survey: Information technology, stakeholder communications and executive compensation, September 2013

PwC reports that information technology is a top priority for today's boards as directors spend more time on IT and recognize the increased importance of effective IT oversight. With technology rapidly changing the way companies do business, more boards are turning to outside consultants for advice on IT strategy and risk oversight.

Key survey findings include:

- Challenges weaving IT into strategy and risk. Despite reporting increased recognition of the importance of effective IT oversight, 32% of directors still say they do not have a sufficient understanding of IT to support the company's strategy and IT risk mitigation. Additionally, only 22% of directors say they "very much" agree that the company's approach provides them with adequate information for effective oversight.
- Getting up to digital speed. The majority of directors have evolved to become more actively engaged in overseeing traditional IT issues. The status of major IT implementations and the annual IT budget reflect areas with the highest levels of director engagement (80% and 63%, respectively).

PwC's 2013 Annual Corporate Directors Survey: Board composition and behavior, September 2013

PwC provides an inside look at specific details in the core areas of board composition, structure and performance. The survey found that concerns among directors about board composition and peer performance are among the key issues cited by respondents.

Key survey findings include:

- What is so great about serving on a board? Board service is not driven by money or ego. More than half of directors (54%) say that their primary motivation for sitting on a corporate board is intellectual stimulation; 22% see board service as a way to keep engaged; and 17% indicate they simply want to give something back. Remuneration is low on the list.

- How are my fellow directors doing? Directors are becoming more critical of their fellow directors. 35% now say someone on their board should be replaced (compared to 31% in 2012). The top three reasons cited are diminished performance because of aging, a lack of the required expertise and lack of preparation for meetings.
- Replacing directors—and the impediments to doing so. Replacing a fellow board member can be difficult; nearly half of directors (48%) cite impediments to doing so. The top reason given, and cited nearly twice as often as any other factor, demonstrates the importance of board leadership. Specifically, the directors said that board leadership is uncomfortable addressing the issue.
- Sensitivity to shareholder voting. Directors are less sensitive to negative shareholder voting in director elections than they were last year. In 2012, 59% said they would be concerned about re-nomination of a fellow director if he or she received less than 75% favorable shareholder support. However, this year the number dropped to 51%.

10Minutes on whistleblower reform, July 2013

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

Taking control of FATCA, June 2013

This whitepaper expands on an earlier report released in the winter of 2013 and explores strategies for developing an effective FATCA governance, compliance, and controls framework.

In Brief: FASB issues final standard on investment companies, June 2013

On June 7, 2013, the FASB issued Accounting Standards Update No. 2013-08, *Financial Services—Investment Companies (Topic 946): Amendments to the Scope, Measurement and Disclosure Requirements*. This final standard modifies the criteria used in defining an investment company under US GAAP. It also sets forth certain measurement and disclosure requirements. The requirements of the FASB's final standard are effective for interim and annual reporting periods in fiscal years that begin after December 15, 2013. Early application is prohibited. An entity must discontinue application of the guidance in ASC Topic 946 if it is no longer an investment company upon the effective date. The entity is required to present the change in its status as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. An entity that is an investment company upon the effective date should apply the guidance prospectively, and will record the effect of applying the amendments as an adjustment to opening net assets for the period of adoption.

US Asset Management – Strategic Imperatives for Asset Managers, May 2013

This paper presents a thematic introduction to the issues the asset management industry is facing, the key implications to asset managers, and the questions firms should be asking to best adapt their strategies and take advantage of these new and emerging industry demands.

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.

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 include 1) leadership changes at the SEC and FASB, 2) key decisions on the revenue recognition project, 3) the FASB's latest proposals on financial instruments, 4) latest FASB releases and updates on key standard-setting projects, 5) recent SEC, PCAOB, and IFRS developments, 6) 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 structures.

- 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.

To the point: Current issues for boards of directors – Winter edition January 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.

The Quarter Close – Directors’ Edition, Q4, 2012

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 include 1) highlights from the AICPA National Conference on Current SEC and PCAOB Developments, 2) insights into the FASB’s project on disclosure effectiveness, 3) accounting hot topics, including Eurozone crisis update, fair value, asset impairments, pensions, valuation allowances, and more, 4) latest FASB releases and updates on key standard-setting projects, and 5) recent SEC, PCAOB, and IFRS developments.

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, 2012

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.

10 Minutes 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.

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

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