Current developments for mutual fund audit committees

A quarterly summary

December 31, 2014

Introduction

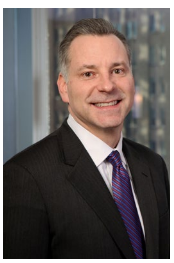
Dear clients, colleagues and friends,

We are pleased to provide you with the most recent *Current developments for mutual fund audit committees – A quarterly summary.*

The latest compilation of PwC articles and observations on developments for the three months ending December 31, 2014, includes the following topics:

- ETF 2020: Preparing for a new horizon
- Intermediary oversight: Monitoring the blue sky state registration process
- Highlights from PwC's 2014 Financial Services Audit Committee Forum
- President Obama signs law changing mutual fund tax rules

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.



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ETF 2020: Preparing for a new horizon

The ETF (Exchange Traded Fund) market is growing at a rapid pace. ETFs are no longer considered a niche product and a growing number of organizations are likely to enter this market in the future. To help Asset Managers prepare to compete in this fast changing environment, we have considered their ongoing evolution, barriers to growth and the opportunities that lie ahead and how they can plan for the future.

Our publication "ETF 2020: Preparing for a new horizon" (ETF 2020) combines our perspectives into where we see the ETF industry evolving, with the insights we gained from surveying over 60 asset management firms and service providers, representing over 70% of the global ETF assets under management. The following highlights the key themes in our ETF 2020 report. To download a copy of the report, please see: ***ETF 2020: Preparing for a new horizon.***

Section 1: Executive summary

Ongoing evolution – While the US market has led the way with respect to the growth and innovation of ETFs, there are many other global markets with significant growth potential, including Europe and Asia. The segmentation of the ETF markets continues to develop, with institutional investors driving growth in some areas, and the advisor market driving growth in other areas. We expect to see continued innovation in the ETF space, with non-traditional indexing and active ETFs representing two areas for further expansion over the next six years.

Impediments to growth – Aging populations and advances in technology could radically alter the way investment advice and products are evaluated and consumed. Regulatory constraints and distribution dynamics favoring other types of investment products may slow growth in some markets.

Opportunities ahead – We expect more asset management firms to enter the ETF industry as more types of investment strategies become operationally feasible and permitted by regulators. Deep expertise, differentiated products, brand awareness, investor education, regulatory savvy, ability to create innovative investment solutions and effective distribution are important areas for ETF firms to focus on over the next six years.

Section 2: ETFs in 2020

Growing global footprint – We expect continued asset flows in developed markets of the United States and Europe, but the highest rates of growth are likely to be found in less mature markets. Asian investors are now starting to invest in ETFs and we expect the growth in this region to be significant between now and 2020. We also expect significant global growth of ETFs in Latin America, the Middle East and Africa which currently account for only 2% of global ETF assets.[1]

More segments adopt – ETFs appeal to a diverse array of investors and intermediaries. Everyone from financial planners to hedge fund managers, insurance companies and central bankers can find something to like about ETFs. As ETFs become more global, they will find their way into the portfolios of a wide array of investors. However, institutional investors are widely expected to be the primary growth driver in the coming years. Insurance companies, pension plans and hedge funds in particular are projected to be significant sources of demand for ETFs. The global shift towards fee-based models to compensate for the sale of investment products will also benefit ETFs over the next few years and beyond.

Products proliferate – New types of indexing (also referred to as "smart beta") represent a hotbed of product development activity which is expected to continue for the near term. Alternatives and active ETFs are also expected to be sources of significant growth between now and 2020.

1 BlackRock, "ETP Landscape: Industry Highlights," 30 June 2014

Service providers evolve – ETF service providers are expected to continue to adapt their business model by adding resources, streamlining processes, introducing more automation, globalizing operations and upgrading technology. We also expect further integration of service offerings which is business as usual for many firms in the mutual fund industry.

Optimistic economic outlook – ETF sponsors are rather bullish on their financial prospects with 59%[2] saying that they expect their ETF business to become more profitable in 2015. Upgrading technology, resources and processes will be critical as the ETF landscape becomes more global and advanced, with a wider array of investors and new investment strategies offered in ETF form.

The power of policy – The regulatory environment is widely believed by PwC's Global ETF survey participants to have a significant impact on the growth and innovation of ETFs over the next few years. New regulations could spark further growth if they permit further product innovation or lower distribution barriers; however, regulations could also dampen demand, particularly if tax rulemaking results in ETFs being less tax efficient.

European summary – New regulatory initiatives are some of the biggest drivers of change in the European ETF business, affecting distribution dynamics and the product landscape in particular. MiFID II and Retail Distribution Review are set to ban the use of commissions by independent financial advisors which have to date worked against ETFs in the retail market. Active ETFs are expected to be a source of significant growth in the coming years. More streamlined operations to facilitate cross-listing and settlement could make European ETFs much more attractive and cost effective in the future.

Asia summary – Traditional forms of passively managed ETFs are still viewed as a major growth opportunity in the Asian market which is still relatively young. As such, product innovation is not generally viewed as a priority in the next few years. Distribution remains a challenge in Asia, where the use of commissions encourages the use of mutual funds rather than ETFs. Fund passports which would facilitate trading of investment products within various Asian countries, could have a profound impact on the success of ETFs in Asia.

US summary – Institutional investors, including registered investment advisors, wealth management platforms, other asset managers, endowments and foundations are each expected to continue to expand their investments in ETFs between now and 2020. There continues to be a lot of interest in active ETFs, particularly in light of the Securities and Exchange Commission approval of one version of non-transparent active ETFs. SEC approval of additional versions of non-transparent active ETFs could lead to another phase of growth and innovation for ETFs in the US.

Section 3: Challenges on the horizon

Regulatory and tax issues – Tax efficiency has been, and is expected to be one of the key attractions for ETFs. ETF sponsors will need to evaluate various tax structures for proposed products in addition to country-specific tax issues, particularly in markets with significant growth potential such as Asia, South America, and the Middle East. ETF sponsors must also be prepared to comply with changing regulations in a wide range of jurisdictions if they want to gain traction in those markets as they emerge.

The distribution problem – Mutual funds continue to have the advantage over ETFs in many geographic regions due to sales compensation arrangements. Firms may need to look for additional distribution platforms such as fund supermarkets and online platforms.

Increasingly crowded markets – Market saturation is another potential obstacle. New ETF firms are faced with increasing competition and need to focus on strong brand and differentiated products.

New entrants – The emphasis shifts back to the end investor with ETFs. New entrants into the ETF market will want to carefully consider the objectives and uses of ETFs by segment in addition to the role of intermediaries and how they are compensated for distributing various products.

2 PwC Global ETF Survey, September 2014

Need for investor education – ETF sponsors should focus on investor education to help build their brand and encourage long-term investments in their products.

Innovation cuts both ways – Regulators are likely to continue to focus on managing the growth and innovation of ETFs and ensuring investor interests are protected.

Technological disruption – One of the primary benefits of ETFs is low costs. ETF firms will need to invest in technology and establish strong links with various market participants in order to create cost-effective and efficient solutions.

Section 4: Strategic imperative

A shifting competitive environment – Firms need to carefully consider the impact of ETFs on their corporate strategies whether they currently offer ETFs or not. Increasing competition will create challenges for both existing and potential new entrants in the ETF industry.

Successfully planning for 2020-in our ***Next Generation of ETFs white paper*** we outlined the following strategies which are worth repeating:

- Differentiating product offerings;
- Monetizing expertise;
- Utilizing content marketing;
- Capitalizing on regulatory developments;
- Developing solutions, not products; and
- Cultivating pockets of demand

Intermediary oversight: Monitoring the blue sky state registration process

Currently, two forces are shaping intermediary oversight programs at most mutual fund companies. The first is the ongoing conversion of shareholder accounts sold through broker/dealers to omnibus accounts where the broker/dealer is responsible for performing shareholder servicing. Secondly, the U.S. Securities and Exchange Commission has continued to focus on payments made by mutual funds related to services provided by intermediaries for recordkeeping and other shareholder services to gain comfort that funds can draw a distinction between those fees that are primarily for distribution from those that are for recordkeeping. These two forces have influenced mutual fund companies, and specifically their transfer agent personnel, to think differently about how to help to establish whether transactions in their funds are processed completely, accurately, timely and in accordance with the prospectus. This has led mutual fund companies to enhance their current third party risk management and oversight practices, demand greater transparency into the intermediary's internal control environment, and communicate the results of the oversight program to the Board more frequently. To achieve these objectives, mutual fund companies have undertaken such activities as performing on-site visits, reviewing intermediary internal control reports, obtaining completed certifications and questionnaires, and recalculating invoice payments made to intermediaries.

From an industry perspective, the Investment Company Institute (ICI) also focused on helping mutual fund companies increase their oversight of intermediaries. The ICI developed a framework called the Financial Intermediary Controls and Compliance Assessment (FICCA)[1], which intermediaries and mutual fund companies can use as a guide for oversight activities. In addition, this framework contains an opinion that an auditor could issue on the design and operating effectiveness of the intermediary's internal control environment for certain identified areas. Significant revisions to the framework were issued in 2014, one of which related to the oversight of the blue sky state registration process. This article focuses on considerations for mutual fund company management to enhance its intermediary oversight program in this specific area of the blue sky state registration process.

Summary of blue sky securities reporting rules

Each state has adopted "blue sky" legislation that requires the registration of securities that will be offered or sold within the state, including through brokerage firms, and individual brokers. Each state has a regulatory agency which administers the law. The state regulatory agency has the ability to enforce penalties and interest (in addition to unpaid filing fees) on mutual fund companies that haven't filed correct or required information. Certain states, including the highest fee states of Texas, Washington, Minnesota, Wisconsin, Nebraska, and West Virginia, have an interest in the accurate capturing of fees that should be paid based on shares sold within their borders. Given the states' incentive on capturing appropriate fees, the continuing shift towards omnibus recordkeeping, and the fact that most mutual fund companies wish to sell in multiple states with differing laws, mutual fund companies are spending more time and effort on the oversight of those vendors who are part of the blue sky process (i.e., intermediaries, blue sky filing vendor). A mutual fund company's oversight program should consider addressing the complexity of each state's blue sky laws, including the potential filing exemptions that could be claimed, and its own internal control environment to determine the most efficient and effective way to monitor mutual fund share filings in each state are complete and accurate.

Important third party relationships

Based on each state's filing requirements, a mutual fund company is responsible for filing sales reports and paying filing fees. Many mutual fund companies choose to outsource the collection of this information to a third party provider. Regardless, mutual fund companies need to understand the process used to collect information from each of their intermediaries selling their funds as well as their own transfer agent who services any direct shareholder purchase information. The responsibilities for this process should be documented in contractual provisions and agreed to by the appropriate parties.

1 www.ici.org/pdf/27847.pdf

Practical considerations for fund management and boards

Several mutual fund companies recently enhanced their monitoring of the blue sky state registration process as part of their overall intermediary oversight function. In addition, mutual fund companies have worked closely with their fund accounting and transfer agent service providers to understand the impact of any blue sky fee discrepancies (e.g., overpayment of fees because certain exclusions weren't taken or underpayment due to inaccurate information was communicated to the third party provider). Key considerations for management and boards related to a robust intermediary oversight program for the blue sky state registration process are discussed below.

- **Document policies, procedures, and controls related to this process.** Do you know which states you sell shares in? Do you understand the specific provisions and exclusions of their laws? What are the controls that should be reviewed and tested as part of your intermediary oversight program?
- **Review contractual provisions with each intermediary and the blue sky registration service provider.** Does your contract document the specific responsibilities of each party? Are some provisions too general? Is there a provision addressing repercussions for filing inaccuracies? Does the contract address how the intermediary or mutual fund company will consider whether certain state exclusions apply (e.g., accredited investors, certain 401k plans, share class conversions, dividend reinvestments (except in CA))? Does the contract specify who should review the sale to determine which state it should be filed in?
- **Reconcile data.** Has the fund company worked with the blue sky service provider to develop a reconciliation process to help to establish all of the appropriate transmission files are received – both from the mutual fund company and intermediaries?
- **Develop data analytics to identify anomalies for further analysis.** Mutual fund companies can work with each intermediary to identify the data elements needed to help establish the "state of sale" data that is being sent to the blue sky provider is complete and accurate. In addition, the mutual fund companies can work with the industry utilities like DTCC to identify specific file layouts to standardize the collection of this data in the most efficient way.
- **Obtain internal controls reports to assess if intermediaries and blue sky vendors have effective controls in place.** Identify which service providers or intermediaries currently provide an internal controls or FICCA report and determine if the report's scope covers relevant areas, including blue sky reporting.
- **Develop a certification process.** Since the state of Texas has developed an annual certification that mutual fund companies must complete, assess what process certifiers use to sign this document. What policies, procedures, controls and testing are being used to determine the completeness, accuracy and timeliness of filing fund share sales?
- **Report information to the Board.** What type of fund board reporting is available and is there an opportunity to enhance the content or timing of fund board reporting to reflect intermediary oversight?

Given the continued regulatory focus and rapid conversion to omnibus accounts, fund company management should use the key considerations noted above to continue to strengthen their intermediary oversight program.

Highlights from PwC's 2014 Financial Services Audit Committee Forum

On September 30th, 2014 PwC held one of our signature events in New York, the 13th annual financial services audit committee forum. Over 350 clients primarily directors from various financial services sectors, including asset management, banking & capital markets and insurance, attended the forum.

Alan Krueger, Professor of Economics for Princeton University and former chairman of the White House council of Economic Advisors, provided a keynote speech covering the top five risks that "keep him up at night," which included the European economy, the Fed moving either too quickly or too slowly to raise interest rates, geopolitical risks, cyber-risks and instability in China. Mr. Krueger also discussed other, longer term risks, including climate change (and its impact on the insurance sector), changing demography, slower productivity growth, and what he called "technological unemployment."

Tom Ridge, former Pennsylvania governor and first Department of Homeland Security Secretary, provided a luncheon keynote speech highlighting the online security risks faced by corporations, and emphasized that he sees two kinds of corporations: those that have been hacked and know it, and those that have been hacked and don't know it yet. Mr. Ridge also described in some detail the implications of National Institute of Standards and Technology ("NIST") standards and how standards often become regulations.

Key themes were noted in the conference:

- Regulation continues to be a "top 5" issue of focus by management and directors, however there is some feeling that rule making post financial crisis is more than halfway completed and management is working with regulators as a stakeholder to invest time in educating about the business and industry trends.
- Cybersecurity was one of the most focused on topics of the conference, including interest in the NIST framework.
- During the Asset Management breakout session, discussion included *Asset Management's 2020, A Brave New World* publication.

Current regulatory and standard setting developments

On the topic of current regulatory and standard setting developments, PwC US Banking and Capital Markets leader, Russ Mallett, led a panel of industry experts, which included PwC's Senior Strategy and Policy Advisor, Troy Paredes and PwC's Assurance Quality and Transformation managing partner, Mike Gallagher, and an independent director. The panel discussion focused on audit committees' challenges keeping up with evolving standards and regulations. They also addressed the global financial services regulatory outlook and how boards should be thinking about new regulatory developments. Lastly, the panel provided insight into actions the SEC, PCAOB, and other bodies are considering, and how those changes can affect the financial services industry.

Regulatory expectations of the audit committee

This breakout session delved into regulators' heightened expectations of the audit committee. PwC's Financial Services Regulatory Practice leader David Sapin led a panel of three former regulators who now work at PwC, M. P. Azevedo (former FDIC Deputy Director for International Coordination in the Office of Complex Financial Institutions), Doug Roeder (former OCC Senior Deputy Comptroller for Large Bank Supervision) and Grace Vogel (former FINRA EVP for member regulation). The panel offered insight into the global regulatory landscape, regulators' growing attention to board member qualifications and how directors can execute their responsibilities and meet board risk governance standards.

The panel emphasized the importance of understanding and connecting business strategy and growth opportunities to risk management and audit risk evaluations. They noted an emerging industry practice for audit committees to proactively interact with their regulators. They also reminded the audience that regulators expect audit committees to be well prepared to react to the next financial crisis. In closing, the panelists said that financial services institutions should implement global regulations via an enterprise-wide approach and view them as a strategic opportunity to improve governance.

Cybersecurity: What directors need to know

PwC's Joe Nocera, principal and Financial Services Cybersecurity leader, led this panel that included Charles Beard, PwC partner and Forensics Practice leader and a cybersecurity practice leader at a law firm. This session described how boards can work with management to assess how companies meet cybersecurity "reasonability" standards, that is, "reasonable steps have been taken." Specifically, panel members discussed how boards can monitor management's reaction to cyber risks, help set appropriate thresholds for action by management in response to potential and real cyber threats, and also understand how political and economic developments may impact future cybersecurity risks and protocols. In addition, the session covered board members' own considerations of understanding cybersecurity, and how outside experts, such as legal and advisory professionals, can help resolve gaps in a board's understanding of cyber risk.

Today's boardroom agenda: Key consideration for financial services audit committees

Catherine Bromilow from PwC's Center for Board Governance moderated a panel of two independent directors, which discussed both public and non-public board perspectives, and shared insights into how audit committees can assess frameworks in place to evaluate expertise and governance, while improving the board's overall quality.

This session addressed the increasing penetration of the boardroom by regular and activist shareholders, as well as regulators. The dialogue addressed how directors/committee members have an opportunity for enhanced stakeholder dialogue by dealing directly with investors. The panel discussed the importance of diversifying the board, including by age, gender, geography, ethnicity, experience, etc., and conducting periodic assessments and evaluations of board performance.

In addition, the panel covered potential changes to public disclosures and the potential that quarterly releases may not be frequent enough for the millennial generation, which likes instant information. They noted that IT risk is an emerging issue directors are interested in discussing, particularly given the reputational risk when a cyber-attack occurs, and the regulators involvement in breach investigations. The panelists concluded by pointing out that learning from key stakeholders would be vital to future success.

Asset management session

PwC's US Asset Management Governance Practice Leader John Griffin hosted the asset management session, which had four parts. It began with an interactive discussion led by PwC Managing Director and Global Strategy Leader, John Siciliano, on the main themes in PwC's publication, *Asset Management 2020: A Brave New World.* The session continued with a panel discussion on current and evolving regulatory issues. PwC Assurance Partner Tony Evangelista moderated the panel, which featured Scott Weisman, PwC Financial Services Regulatory Practice Managing Director; a chief control officer of a large asset manager; and an independent trustee of a large mutual fund complex. The panelists addressed a variety of issues related to regulation and risk management, particularly recent Securities and Exchange Commission decisions that directly affect the asset management industry. The session continued with a tax policy and accounting discussion that featured Chris May, PwC National Professional Services Group Partner, and Rohit Kumar, Principal and Co-leader of PwC's Tax Policy Services Practice. Finally, the session concluded with a presentation by Troy Paredes, PwC Senior Strategy and Policy Advisor, on the evolving role of the director in the asset management industry.

PwC's 2015 Financial Services Audit Committee Forum will be held on October 1, 2015. We look forward to welcoming you to the event later this year.

President Obama signs law changing mutual fund tax rules

Key development

On December 19, 2014, President Obama signed the Tax Increase Prevention Act of 2014 ("TIPA"). TIPA extends numerous expiring tax provisions and includes technical corrections to previously enacted tax laws (the "Technical Corrections"). The Technical Corrections include several revisions to the Regulated Investment Company ("RIC") Modernization Act of 2010 (the "Act"). The Act has benefited RICs and their stakeholders in a number of ways, for example by enhancing shareholder tax efficiency and reducing tax risks. That said, certain provisions either did not achieve the intended effect or resulted in unintended consequences. The Technical Corrections address some of these adverse effects by adopting changes sought by the mutual fund industry after the Act.

Why it's important

TIPA extends expiring provisions for both individuals and businesses. Of particular interest to RICs and their stakeholders is the extension of the interest-related and short-term capital gain dividend provisions. These rules benefit non-US shareholders of a RIC, as properly reported dividends are exempt from US withholding tax. TIPA provided a one year, retroactive extension of the provision. The rules expire again for RIC tax years beginning after December 31, 2014.

The Technical Corrections make a number of modifications to the Act. While the changes are highly technical and most have narrow application, two amendments have a broad impact on RIC distribution calculations and improve the coordination between the fiscal and excise distribution regimes.

- One amendment reverses a change under the Act that often accelerated a RIC's capital gain distributions to shareholders. The Technical Corrections allow RICs to defer, as they could prior to the Act, a net post-October capital loss to preserve the amount and character of calendar year distributions. The Act allowed deferral of only the loss component.
- Another amendment facilitates shareholder tax reporting for certain fixed income funds holding foreign debt that distribute book net investment income to shareholders periodically (typically monthly). The Act complicated shareholder reporting by changing the rules regarding determining the amount of a RIC's foreign currency gain/loss. The Technical Corrections restore a provision under prior law eliminating the issue.

RICs holding certain total return swap contracts may also realize benefits in determining calendar year distribution requirements from the Technical Corrections. Previously, taxable income on the contracts was determined as of December 31 and could be hard to predict – at times leading to excise taxes or unintended tax return of capital distributions. The Technical Corrections alleviate some of this pressure by allowing certain income and loss inclusions from such swaps to be measured as of October 31.

Finally, the Technical Corrections modify the spillback distribution rules and provide Treasury with additional authority to determine that the amount of a RIC's earnings and profits for certain distributions made to avoid excise taxes.

With the exception of the provisions related to late-year ordinary and capital losses, the amendments made by the Technical Corrections are effective as if included in the Act when enacted. For the changes to the late-year loss rules, a RIC may opt to follow the existing law for tax years beginning before December 19, 2014.

Implications

The Technical Corrections remedy certain unexpected issues that became apparent during the implementation of the Act. The changes provide clarifications that allow RICs to comply with the RIC distribution and shareholder information reporting requirements with more certainty. Mutual fund management, service providers, and other interested parties should familiarize themselves with the new rules, as well as the tax provisions extended by TIPA, and understand the impact on their operations and oversight responsibilities.

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

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

Elimination of "extraordinary items" designation

On January 9, 2015, the FASB issued Accounting Standards Update 2015-01, *Income Statement—Extraordinary and Unusual Items*, to simplify income statement classification by removing the concept of extraordinary items from US GAAP. The standard is effective for both public and private companies for periods beginning after December 15, 2015. Early adoption is permitted, but only as of the beginning of the fiscal year of adoption. Upon adoption, a reporting entity may elect prospective or retrospective application.

Consolidation

On December 10, 2014, the FASB completed its consolidation project by addressing key issues raised during the extended review process of the proposed Accounting Standards Update. The decisions reached include a vote against a Variable Interest Entity (VIE) scope exception for entities that are required to comply or operate in accordance with requirements similar to the Investment Company Act of 1940 for mutual funds. Rather, the FASB will provide interpretive guidance to clarify how voting rights held by the shareholders of these entities should be evaluated when determining whether that fund is a VIE (specifically, when determining whether the equity investors have the "power" to direct the fund's economically significant activities). A final standard is expected in February 2015 and will be effective in 2016 for calendar year-end public business entities, and 2017 for other reporting entities. Early adoption will be permitted.

Investment company disclosures

On December 4, 2014, the FASB issued for public comment a proposed Accounting Standards Update, *Financial Services – Disclosures about Investments in Other Investment Companies*. The proposed amendments would require a feeder fund in a master-feeder arrangement to provide the master fund's financial statements along with its financial statements. The proposed amendments would also expand the scope of the current requirement to disclose certain information about investments held by investee funds that exceed 5 percent of the reporting entity's net assets to include reporting investment companies that are regulated under the Investment Company Act of 1940 (the Act). The proposed amendments would affect all investment companies within the scope of ASC 946, *Financial Services – Investment Companies*, that have investments in other investment companies. The amendments would apply to both investment companies regulated under the Act and those not regulated under the Act. Comments are requested by February 17, 2015.

Going concern

On August 27, 2014 the FASB issued Accounting Standards Update No. 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* (the "new standard"), which defines management's going concern assessment and disclosure responsibilities. The new standard will explicitly require management to assess an entity's ability to continue as a going concern, and to provide related footnote disclosures in certain circumstances. According to the new standard, substantial doubt exists if it is probable that the entity will be unable to meet its obligations within one year after the issuance date. The likelihood threshold of "probable" is similar to its current use in US GAAP for loss contingencies. Disclosures will be required if conditions give rise to substantial doubt. Management will need to assess if its plans will alleviate substantial doubt to determine the specific disclosures.

Auditing matters from the PCAOB, AICPA, and SEC

Standard-setting agenda

On January 12, 2015, the PCAOB issued an updated standard-setting agenda which provides a brief project overview of the board's current standard-setting agenda and outlines key milestones on various standard-setting projects. Key items to note are:

- Disclosure of engagement partner – plan to issue supplemental request for comment
- Auditor's reporting model – plan to repropose
- Supervision of other auditors and multi-location audit engagements –plan to issue proposal
- Use of specialists – plan to issue Staff Consultation Paper, Q1 2015
- Going concern – plan to issue Staff Consultation Paper, Q1 2015
- Other projects:
  - » Confirmations – plan to repropose
  - » Quality control standards, including assignment and documentation of firm supervisory responsibilities – plan to issue Staff Consultation Paper (second half of 2015)
  - » Subsequent events – plan to issue Staff Consultation Paper (timing not yet determined)

Related parties auditing standard

In October 2014, the SEC issued an order approving PCAOB Auditing Standard No. 18, *Related Parties,* and amendments to other auditing standards to strengthen auditor performance requirements in three critical areas of the audit: (1) related party transactions, (2) significant unusual transactions, and (3) a company's financial relationships and transactions with its executive officers. The new requirements include communicating to the audit committee the auditor's evaluation of the company's identification of, accounting for and disclosure of its relationships and transactions with related parties, and other significant matters arising from the audit regarding the company's relationships and transactions with related parties. The new standard and amendments will be effective for audits of financial statements for fiscal years beginning on or after December 15, 2014, including reviews of interim financial information within these fiscal years.

Revenue

In September 2014, the PCAOB issued a Staff Audit Practice Alert for auditing revenue in response to PCAOB inspection findings. The PCAOB also suggested that this may be a topic for audit committees to discuss with their auditors.

Going concern

In September 2014, the PCAOB published a Staff Audit Practice Alert intended to highlight requirements of existing PCAOB standards when considering a company's ability to continue as a going concern in light of the FASB's new accounting standard on the topic.

Auditing of accounting estimates and fair value measurements

On August 19, 2014, the PCAOB issued a staff consultation paper for public comment to solicit feedback on certain issues related to auditing accounting estimates and fair value measurements. The PCAOB staff identified a number of alternative approaches. The options for the new standard include:

- Align with the PCAOB's risk assessment standards
- Generally retain the approaches to internal control and substantive testing from the existing standards, but include requirements that apply to both accounting estimates and fair value measurements
- Establish more specific audit requirements related to the use of third parties in developing accounting estimates and fair value measurements, and
- Create a more comprehensive standard to promote greater consistency and effectiveness in application

The PCAOB staff appears to favor a new single standard as opposed to the separate standards that exist today. Comments on the consultation paper were due by November 3, 2014. Additionally, the PCAOB hosted a special meeting of its Standing Advisory Group ("SAG") on October 2, 2014 to discuss this topic further. The agenda included panel discussions offering various perspectives on the potential need for changes, including challenges posed for auditors, audit committee and investor perspectives and observations from academic research. The SAG meeting was part of outreach efforts by the Office of the Chief Auditor to seek public input into whether PCAOB standards need to be updated. The PCAOB is currently analyzing comments received.

Compliance and regulatory matters from the SEC and others

In December 2014, the SEC issued Investment Management Guidance Update, 2014-12, *Business Development Companies – transactions with certain second-tier affiliates*. The Investment Company Act of 1940 ("1940 Act") places restrictions on transactions between investment companies regulated under the 1940 Act, including business development companies ("BDCs"), and their affiliated persons and affiliated persons of such persons ("second-tier affiliates"). These restrictions are designed to protect such investment companies from undue influence and overreaching. The guidance is meant to assist BDCs and their counsel in determining the restrictions that apply to a BDC's co-investment transactions with certain second-tier affiliates, specifically, limited partners of a partnership that is an affiliated person of the BDC.

In October 2014, the SEC issued Investment Management Guidance Update, 2014-11, *Investment Company Consolidation*. The guidance provides the views of the Division's Chief Accountant's Office regarding the presentation of consolidated financial statements for certain investment companies ("RICs") registered under the Investment Company Act of 1940 and investment companies that have elected to be treated as business development companies under the 1940 Act that have wholly owned subsidiaries.

In October 2014, the SEC issued Investment Management Guidance Update, 2014-10, *Mixed and Shared Funding Orders*. The guidance addresses inquiries and clarifies regulatory obligations related to whether (i) a mutual fund that offers its shares as an investment option under a variable life and/or variable annuity contract is required to obtain a so-called "mixed and shared funding" Commission order prior to making any such offer; and (ii) a mutual fund that has previously obtained a mixed and shared funding order must, in all circumstances, comply with the terms and conditions of that order. The guidance notes that in the staff's view, a mutual fund is not required to obtain a "mixed and shared funding" order prior to offering its shares as an investment option under a variable life and/or variable annuity contract. In addition, a fund that has previously obtained a mixed and shared funding order need not comply with the terms and conditions of that order if the exemptions granted by the order are not being relied upon by any person.

On September 3, 2014, the US banking agencies (Federal Reserve, Office of the Comptroller of the Currency, and Federal Deposit Insurance Corporation) issued their final rule implementing a key component of the Basel III capital framework – the Liquidity Coverage Ratio ("LCR"). The LCR is a short-term liquidity measure intended to ensure that banking organizations maintain a sufficient pool of liquid assets to cover net cash outflows over a 30-day stress period. The LCR retains most key components from the proposal, especially controversial features such as excluding municipal debt from high quality liquid assets and requiring the LCR calculation to be based on the highest occurrence of net cash flows over the 30-day stress period (i.e., the peak day approach). Therefore, although the final LCR was a bit more lenient than the proposal, it nonetheless remains more stringent than Basel's version, posing a challenge for US firms.

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

PwC quarterly developments for mutual fund audit committees

PwC

Independent Directors Council/Affiliates

Mutual Fund Directors Forum

Pwc quarterly developments for mutual fund audit committees during the one year ended December 31, 2014

September 30, 2014
This edition of Current Developments includes articles on the following topics:

- Regulatory hot topics affecting asset managers and mutual funds
- Cybersecurity considerations in financial services
- Asset management benchmarking study for traditional asset managers
- Seed capital – Investing in product innovation

June 30, 2014
This edition of Current Developments includes articles on the following topics:

- Money market fund reform developments
- Liquid alternatives – Operational and regulatory considerations
- FATCA – Mutual funds may need to identify a responsible officer for certain non-US entities
- Investment spotlight on sovereign debt

March 31, 2014
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

December 31, 2013
This edition of Current Developments includes articles on the following topics:

- Ongoing focus on distribution
- Spotlight on fair value hierarchy developments
- PCAOB reproposed certain amendments to disclose name of engagement partner and certain other participants in audits
- Proposed changes to mutual fund tax rules included in draft technical corrections bill

PwC
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18th Annual Global CEO Survey, 2015

Asset management CEOs are increasingly optimistic this year, reflecting the recent rise in equity markets and a strong outlook for their businesses over the years to 2020. They're actively investing for growth, looking to make acquisitions, add headcount and increase technology spending.

ETF2020: Preparing for a new horizon, January 2015

The ETF (Exchange Traded Fund) market is growing at a rapid pace. Growing far beyond their initial function of tracking large liquid indices in developed markets, ETFs now hold over $2.6 trillion of assets globally. In this report, PwC has surveyed asset managers, service providers and other industry participants around the world in an effort to better understand regional developments in ETFs and use their expertise as a sounding board for our own perspectives.

ETF 2020: Preparing for a new Horizon, leverages the results of our global survey and our insights to paint a picture of how the ETF business and landscape is likely to develop globally over the next six years. To help asset managers prepare to compete in this fast changing environment, we have considered the ongoing evolution, barriers to growth and the opportunities that lie ahead, and how they can plan for 2020.

Key considerations for board and audit committee members, 2014 - 2015

A fresh and critical look at the boardroom agenda is crucial as companies are confronted with a changing business landscape, technological advances, and significant risks such as cybersecurity. Our latest edition of Key considerations for board and audit committee members addresses topics for today's changing boardroom agenda.

The 2014-2015 Key considerations for board and audit committee members report focuses on topics that directors may want to consider in the coming year as part of their evolving oversight roles. These topics include shareholder activism, emerging technologies, cybersecurity, the new revenue recognition standard, and noteworthy investor perspectives. In addition to helping boards and audit committees, this publication can be useful to engagement teams looking to further their relationships with directors.

In brief: FASB removes concept of extraordinary, retains guidance on unusual items, January 2015

On January 9, 2015, the FASB issued Accounting Standards Update 2015-01, *Income Statement—Extraordinary and Unusual Items*, to simplify income statement classification by removing the concept of extraordinary items from US GAAP. The standard is effective for both public and private companies for periods beginning after December 15, 2015. Early adoption is permitted, but only as of the beginning of the fiscal year of adoption. Upon adoption, a reporting entity may elect prospective or retrospective application.

Point of view: Audit Committee evolution – 2014 and beyond

Audit committees' agendas continue to expand as companies are faced with a rapidly-changing global business landscape, the proliferation of standards and regulations, increased stakeholder scrutiny and a heightened enforcement environment. As a consequence, audit committees must continue to transform and evolve to maintain and increase their effectiveness. What actions are they taking? Leading audit committees are setting a strong tone at the top, owning their agenda, building strong relationships with auditors, evaluating their informational and educational needs, and critically assessing their own performance.

What matters in the boardroom? Director and investor views on trends shaping governance and the board of the future, December 2014

In the summer of 2014, PwC conducted two separate surveys to gain insights from both public company directors and institutional investors on trends that we believe are shaping corporate governance. 70% of directors who responded serve on the boards of companies with more than $1 billion in annual revenue. At the same time, institutional investors with over $11 trillion in aggregate assets under management responded to PwC's 2014 Investor Survey. This research compares the responses of PwC's 2014 Annual Corporate Directors Survey and PwC's 2014 Investor Survey in order to identify areas where viewpoints are shared or different perspectives may exist between directors and investors.

Annual Corporate Directors Survey: Trends shaping governance and the board of the future, 2014

A total of 863 public company directors responded to our 2014 Annual Corporate Directors Survey. Of those, 70% serve on the boards of companies with more than $1 billion in annual revenue. The survey addresses the following areas and provides insight about the trends that are affecting what goes on in the boardroom: 1) Board performance and diversity; 2) Board priorities and practices; 3) IT and cybersecurity risk; 4) Executive compensation and director communications; and 5) Strategy and risk oversight.

The quarter close – Directors edition Q4, 2014

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) the tie between the new revenue standard and compensation plans, (2) concern about modifying debt that could constitute embedded derivatives, (3) elimination of extraordinary items, (4) new mortality tables that may extend the run of benefits, (5) upcoming standard for private companies that could reduce the cost and complexity of accounting for business combinations, (6) an interview with Troy Paredes, former SEC commissioner, regarding the SEC's focus on financial reporting, its efforts regarding the disclosure regime, and the possibility of a decision on using IFRS in the US, and (7) corporate governance – insights on key governance trends.

In depth: Year-end financial reporting considerations, December 2014

This publication revisits financial reporting topics that continue to challenge financial reporting professionals because of their prevalence, complexity or unique nature – the so-called "usual suspects." Additionally, it summarizes the FASB's newly issued standards, some of which are eligible for adoption in the 2014 reporting cycle.

Regulatory and standard-setting developments, December 2014

This document provides a summary of the activities of the FASB, SEC, and PCAOB, and describes related international developments that may be of interest to audit committees, companies, and their stakeholders. This issue highlights the themes that were discussed during the AICPA National Conference on Current SEC and PCAOB Developments, recent developments at the FASB/IASB transition resources group, pushdown accounting, PCC standards, and financial instruments. An update at the SEC includes the status of certain Dodd-Frank Act mandates and the recently released fiscal year 2014 enforcement results. Recent developments at the PCAOB include updates for the proposed changes to the auditor's report, including critical audit matters, enhancements to the auditor's responsibility and reporting on other information, and discussions at the November Standing Advisory Group meeting. Internationally, member states have begun considering the EU audit reform rules that came into force in June.

In depth: AICPA National Conference on Current SEC and PCAOB developments, December 2014

Key themes of the 2014 AICPA Conference were disclosure effectiveness, comparability, and the need for simplification. The 2014 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 staff comment, consultation trends, and enforcement actions. Speakers from the FASB, IASB and PCAOB each provided updates on current standard setting activities and areas of focus in the coming year.

An overarching theme of the Conference was the importance of providing investors and other stakeholders with decision-useful information through financial reporting. More specific areas of discussion related to the implementation of the new revenue recognition standard, ongoing projects on disclosure effectiveness and simplification, reminders on certain technical accounting and reporting matters, and building investor confidence in the audit opinion through a focus on audit quality. Updates on conflict minerals and integrated reporting initiatives were also provided.

BoardroomDirect, December 2014

This edition includes highlights of the 2014 edition of the comparative report of PwC's Annual Corporate Directors Survey and Investor Survey. There is also an article on the importance of board oversight of management's social media policies and risk management plans. There is news about the proposed CEO/median pay ratio rule, the 2014 SEC whistleblower report to Congress, the PCAOB looking to issue a concept release on audit quality indicators, and the findings of an audit committee transparency barometer.

Q4 Current Accounting and Reporting Developments Webcast, December 2014

PwC's National Professional Services Group's 'Current Accounting and Reporting Developments Webcast' was held on Wednesday, December 17, 2014. The 90 minute CPE eligible recorded webcast features insights from a broad range of PwC specialists who will update you on the current state of technical topics and emerging issues that may impact your business.

In brief: Consolidation – FASB completes decision making, December 2014

The FASB has completed its decision making related to the consolidation project. A final standard is expected in February 2015. The new standard will be effective in 2016 for calendar year-end public business entities, and 2017 for other reporting entities. Early adoption will be permitted. This In brief summarizes key decisions reached at the December 10, 2014 FASB meeting.

State of Compliance 2014 Financial services industry brief

The 2014 annual Compliance function survey notes four themes capturing important elements of the state of compliance in the financial services sector:

- Financial services organizations are devoting increasing attention and resources to compliance.
- There is no consensus among financial services organizations as to where the chief compliance officer (CCO) fits in the organizational chart.
- CCOs and compliance committees are challenged to better understand their organizations' business strategies, activities, and operations.
- CCOs are challenged to report compliance matters to the board and senior management in a way that supports their organizations' strategies.

Asset managers: FSOC stands down, SEC stands up, November 2014

In August 2014, the Financial Stability Oversight Council (FSOC) announced that rather than designating individual asset managers as systemically important financial institutions, it would focus on examining systemic risk posed by asset managers' products and activities. Although FSOC's shift away from designating large asset managers marks a significant victory for the SEC and the industry, the move is by no means the end of increased regulatory scrutiny. FSOC and other regulators now expect the SEC to assume a prudential supervisory role, in addition to exercising its traditional mandate of investor protection. The brief (a) provides background on the ongoing debate regarding the systemic risk potentially posed by asset managers, (b) outlines our view of the next steps the SEC will likely take, and (c) assesses the impact of global regulatory efforts on US asset managers.

Stay informed: 2014 SEC comment letter trends – Financial Services, November 2014

This paper discusses the recent areas of focus and applicable accounting or reporting guidance in SEC staff's comment letters issued over the past few years to registrants within the financial services industry and the identified trends of hot topic areas, including Asset Management sector specific highlights.

Threat smart: Building a cyber-resilient financial institution, October 2014

The traditional information security model – controls and compliance based, perimeter-oriented, and aimed at securing data and the back office – does not address the realities or complexities of cyber risk today. Financial institutions should see cyber risk management as an integral aspect of managing their business and controlling risks. While this doesn't eliminate cyber risks, it allows you to manage those risks through an informed decision-making process.

Regulatory and standard-setting developments, September 2014

This document provides a summary of the activities of the FASB, SEC, and PCAOB, and describes related international developments that may be of interest to audit committees, companies, and their stakeholders. This issue highlights recent developments at the FASB on the consolidation, simplification, revenue, leasing, going concern and financial instruments projects. Updates at the SEC include the appointment of a new Chief Accountant along with internal control updates and COSO considerations. Recent developments at the PCAOB include the issuance of a staff consultation paper on the auditing of accounting estimates and fair value measurements, an update on the auditor reporting model and the issuance of a Staff Audit Practice Alert for auditing revenue.

The quarter close – Directors edition Q3, 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: (1) the new revenue standard, (2) spin-offs, (3) recognizing revenue for sales of virtual goods, (4) sale-leaseback transactions, (5) the new FASB rule requiring going concern assessment, (6) corporate governance – audit committee excellence, and more.

BoardroomDirect, September 2014

This edition includes a summary of the latest Audit Committee Excellence Series – Achieving excellence: Overseeing external auditors. It also includes short items on: (1) initiatives by two large institutional investors to boost gender diversity on boards, (2) what is important about board self-evaluations, (3) an update on Dodd-Frank Act rulemaking, and (4) FASB and PCAOB actions regarding going concern disclosures.

Audit Committee Excellence Series: Achieving excellence — Overseeing external auditors, September 2014

This edition addresses communications with the external auditor, the audit committee chair's working relationship with the lead audit partner, auditor independence, and the preapproval process for auditor services. Some other topics discussed include the external auditor relationship with internal audit; the influence of other parties, such as the PCAOB, Center for Audit Quality and proxy advisory firms; and evaluating the auditor.

In depth: FASB defines management's going concern assessment and disclosure responsibilities, September 2014

On August 27, 2014 the FASB issued a new standard — Accounting Standards Update No. 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern,* which defines management's going concern assessment and disclosure responsibilities. The new standard will explicitly require management to assess an entity's ability to continue as a going concern, and to provide related footnote disclosures in certain circumstances. According to the new standard, substantial doubt exists if it is probable that the entity will be unable to meet its obligations within one year after the financial statement issuance date. The likelihood threshold of "probable" is used similar to its current use in US GAAP for loss contingencies. Disclosures will be required if conditions give rise to substantial doubt. Management will need to assess if its plans will alleviate substantial doubt to determine the specific disclosures. The publication provides a summary of the key provisions.

BoardroomDirect, August 2014

This edition discusses ways to improve cybersecurity dialogue between the C-suite and the board. It also includes short items on: (1) the US Chamber of Commerce's proposed corporate disclosure recommendations, (2) highlights of the 2014 proxy season from proxy advisor Institutional Shareholder Services, (3) the PCAOB staff's consultation paper on accounting estimates and fair value standards, and (4) proposed changes to the internal audit practices framework from the Institute of Internal Auditors.

In brief: PCAOB seeks comments on auditing accounting estimates and fair value measurements, August 2014

On August 19, 2014, the PCAOB issued for public comment a staff consultation paper on standard-setting activities related to auditing accounting estimates and fair value measurements. The staff consultation paper discusses and solicits comment on certain issues related to auditing accounting estimates and fair value measurements in order to assist the PCAOB staff in evaluating whether the existing PCAOB auditing standards can and should be improved. The article provides an overview of the consultation paper.

In Brief: SEC issues final rules to reform money market funds, July 2014

On July 23, 2014, the SEC issued final rules aimed at reducing the risk of a run by investors on money market funds. The new rules mandate the use of a floating net asset value for institutional prime money market funds. In addition, the rules provide boards the ability to impose liquidity fees, as well as implement redemption gates, for all non-government money market funds during periods of stress. The rules are not expected to alter the designation of money market funds as cash equivalents.

In the loop: EU audit reform – the impact beyond Europe, July 2014

This issue discusses how audit reform in the European Union (EU) doesn't directly apply to US companies—but certain European subsidiaries could be scoped in. The new requirements apply to subsidiaries that meet the definition of an EU public interest entity, including EU banks and insurers. The rules become effective in 2016, except for mandatory firm rotation, which is subject to a transition period. However, US multinationals should take steps now to understand if and how the legislation affects their EU subsidiaries. Complying with the requirements could be challenging and require advance planning, especially if EU statutory audits are performed by the same audit firm performing the US company consolidated audit.

Asset Management Alert: Certain total return derivatives facing increased scrutiny, July 2014

On July 22, 2014, the Senate Permanent Subcommittee on Investigations ("PSI") held a hearing entitled "Abuse of Structured Financial Products: Misusing Basket Options to Avoid Taxes and Leverage Limits." Although the purpose of the hearing was to probe the use of a particular trading strategy by certain hedge funds, it may result in increased scrutiny around total return derivatives and may further shed a negative spotlight on the industry.

Audit Committee Excellence Series: Achieving excellence — Overseeing internal audit, July 2014

This edition is about effective oversight of the internal audit function and includes discussion of directors' role in maximizing internal audit's value proposition.

Regulatory and standard-setting Developments, June 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.

Regulatory Brief: SEC sweep on liquid alternative funds, June 2014

This Regulatory Brief (a) provides background on liquid alts, (b) describes the SEC's concerns, (c) suggests areas of future exam focus, and (d) offers suggestions on what industry participants can do now to prepare.

The Quarter Close – Directors' Edition Q2 2014, June 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: 1) overseeing the process of going public; 2) accounting for software costs; 3) an overview of the new discontinued operations guidance; 4) the latest private company accounting alternative for leases under common control; 5) financial institutions prepare to comply with new regulations; and 6) corporate governance – audit committee excellence.

In Brief: PCAOB adopts final standard on related parties and related amendments to other auditing standards, June 2014

On June 10, 2014, the PCAOB adopted Auditing Standard No. 18, *Related Parties*, and amendments to other auditing standards to strengthen auditor performance requirements in three critical areas of the audit: (1) related party transactions, (2) significant unusual transactions, and (3) a company's financial relationships and transactions with its executive officers. The new standard and amendments will be effective for audits of financial statements for fiscal years beginning on or after December 15, 2014, including reviews of interim financial information within these fiscal years.

In Brief: FASB amends repo accounting and enhances disclosures, June 2014

The new standard amends the accounting guidance for "repo-to-maturity" transactions and repurchase agreements executed as repurchase financings. This issue summarizes the new accounting and disclosure requirements. Public business entities are required to apply the accounting changes and comply with the enhanced disclosure requirements for the first interim or annual reporting period beginning after December 15, 2014. For repurchase and securities lending transactions reported as secured borrowings, the new standard's enhanced disclosures are effective for annual periods beginning after December 15, 2014 and interim periods beginning after March 15, 2015.

In depth: The standard is final – A comprehensive look at the new revenue model, June 2014

This issue summarizes the new revenue recognition model. Accompanying the issue is an initial release of industry-specific supplements with examples and further insights into ways entities within the industry are likely to be affected by the revenue standard.

In the loop: Reporting revenue – new model, new strategy? June 2014

This issue discusses the newly issued revenue guidance and how it could impact a company's business practices and go-to-market strategies.

Audit Committee Excellence Series Achieving – excellence: Financial reporting oversight, May 2014

This issue discusses the importance of press releases covering preliminary results, considerations for audit committees before releasing results, and tips for reviewing actual filings.

Board oversight of risk: Defining risk appetite in plain English, May 2014

This board-level report provides an overview of the risk appetite process, the board's role in risk appetite, and questions boards should consider asking management about risk appetite.

Five megatrends and possible implications: Directors edition, April 2014

The publication looks at the complexities and interconnectedness of the megatrends, and the potential implications on business— now and in the future. It offers a high-level view of the megatrends for directors to discuss with their companies. The megatrends are: 1) accelerating urbanization; 2) climate change and resource scarcity; 3) demographic shifts; 4) a shift in economic power; 5) technological breakthroughs.

BoardroomDirect: Special Edition (ProxyPulse, first edition 2014)

PwC's Center for Board Governance released a Special Edition of *BoardroomDirect*, the Center's newsletter for directors and executives. The Special Edition announces *ProxyPulse*, first edition 2014 – a collaboration of PwC's Center for Board Governance and Broadridge Financial Solutions. *ProxyPulse* contains key trends from the 2013 fall "mini-season" covering the 1,066 shareholder meetings held between July 1 and December 31, 2013, along with comparative data from the 2012 fall mini-season.

Point of view: Financial statement disclosures – Enhancing their clarity and understandability, April 2014

Preparers can take actions today to make sure they are preparing clear and understandable disclosures based on the facts and circumstances. Other capital market participants also have a role to play by encouraging disclosure of only important, relevant information. Within established rules and legal requirements, exercising well-reasoned judgment to determine relevant disclosures should streamline financial statement presentation and provide users with the information that is most important for decision making. Organization, formatting and cross-referencing also can enhance navigation within the financial statements.

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: 1) new accounting standards for private companies being adopted; 2) assessing whether profit-sharing arrangements are accounted for as equity or a bonus; 3) two class method of calculating earnings per share; 4) accounting for new transaction types using old methods – gross versus net revenue analysis; 5) allocating income taxes to separate company and carve-out financials; 6) new FASB developments relating to financial instruments, consolidations, and insurance projects; 7) regulatory matters; and 8) corporate governance – cybersecurity, and more.

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 were 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.

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. This *Dataline* addresses some of the key financial reporting implications relating to 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. 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.

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 *Dataline* provides highlights from the Conference and PwC observations, including quality of financial reporting and auditing and transparency in the context of regulatory practices, audits and disclosures.

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.

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.

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.

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, asset managers are aggressively pushing to change their business models.

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 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

Board Oversight of Alternative Investments, January 2014

This paper focuses on some questions for boards to consider when overseeing funds with investment strategies that are significantly different from more traditional long-only equity and fixed income funds.

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.

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