“The alternative investments industry has seen tremendous growth over the past 10 years, and the next 10 years may be even more challenging. The industry conditions that alternative managers face today hold tremendous opportunity.”

The alternative investments industry has experienced unprecedented challenges and changes over the past decade. Significant growth in assets under management followed by a sharp contraction during the financial crisis, took some firms to the brink of survival. While recovery is well underway, the industry has been reshaped by these events. In the wake of the financial crisis, the alternative investments industry is facing unprecedented scrutiny. Policymakers and regulators have drafted new rules to drive greater regulation, reporting and oversight of the industry—all with the goal of providing more transparency and accountability to investors.

Against this backdrop, PwC recently convened its 10th annual alternative investments seminars across the country and internationally to explore the challenges facing the industry now and in the coming decade.

At December’s flagship New York City seminar—attended by an audience of more than 1,500—Mark Casella, US Leader of PwC’s Alternative Investments Practice, set the stage by outlining some of the steps that alternative asset managers are taking to regain investor trust, return to growth and position themselves for competitive advantage in a post-reform environment.

The first panel of the day, US and global regulatory reform: impact on alternative asset managers, focused on three key questions: How the new rules under the Wall Street Reform and Consumer Protection Act (Dodd-Frank) will affect the day-to-day operations of asset managers; What stronger enforcement and oversight activity means for the industry; and, How the regulatory changes in the European Union will affect US managers.

The next panel, Industry Trends and Challenges: Tax, Accounting, Finance and Internal Controls, focused on the latest pressures being imposed on the industry by legislators, regulators and investors. New global accounting, tax and reporting standards are incentivizing the industry to migrate from a black box to an open book. The panel addressed what funds are doing to get ahead of these changes and instill confidence with stakeholders that they are proactively managing the impact on their businesses. Issues addressed included: year-end tax planning, enhanced transparency rules and a focus on economic substance in tax planning; incorporating the use of technology to better manage the flow of information; the importance of documentation, third-party assurance and robust internal controls; and, the need to stay one step ahead of constantly evolving tax rules.

The seminar concluded with a keynote discussion featuring former Securities and Exchange Commission (SEC) Chairman Harvey Pitt, former SEC Commissioner Annette Nazareth, and PwC Partner Laura Cox Kaplan, moderated by Mike Santoli, Associate Editor of Barron’s magazine, the Dow Jones business and financial weekly. Panelists provided an insider’s view of what’s happening in Washington, D.C.—how changes in Congress might affect everything from the implementation of Dodd-Frank to funding levels for the SEC, the “flash crash,” and ongoing insider trading investigations.

This publication captures highlights from the New York City seminar and provides insight into the key trends and developments discussed at the seminars held across the country.
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Introductory remarks by Mark Casella

“Regaining the trust that is required to restore investors’ confidence in our industry will not come without sustained effort. The alternative investments industry’s future growth vitally depends on rebuilding and retaining that trust.”

Mark Casella, US Leader, Alternative Investments Practice, PwC

Highlighting some of the touchstone issues that would be addressed later in the program, Mark Casella provided an historical overview of the changes and challenges buffeting the alternative investments industry over the past decade.

Mark suggested that after a decade in which the hedge fund industry more than doubled in size and private equity assets soared before both sectors fell back to earth after the financial crisis—a span that both defined and eroded the industry's brand to investors, regulators and the public—alternative investments managers now face unprecedented change in regulation, tax risk and investor activism, making the next decade potentially more challenging than the one preceding it.

In describing how the industry and regulators got to this point, Mark referenced a 2009 editorial in The Economist, quoting a fund manager who likened the push to regulate hedge funds after the financial crisis to the start of a bar room brawl: “When a fight breaks out in a bar, you don't hit the [guy] who started it. You clobber the person you don't like instead.”

As a result of Europe's Alternative Investments Fund Managers Directive (AIFMD), Dodd-Frank and the US Foreign Account Tax Compliance Act (FATCA), the alternative investments industry now confronts demanding tests of its ability to adapt. The industry is likely to face slower growth, more intrusive supervision, a greater focus on operations and the potential for continued consolidation. For the first time, many fund advisers will be required to register with the SEC, leading to more vigorous examinations, investigations and enforcement actions. They will also be compelled to meet demands by investors for risk reporting and transparency.

How can hedge funds and private equity managers meet these tests?

Firms can start by changing the approach to governance issues, adapting robust controls, stronger regulatory compliance functions and high standards of corporate behavior and reporting. Transparency is a key to trust, providing comfort that there are appropriate controls across the value chain—including the fund board, the managers and, if applicable, the administrators and prime broker.

Managing through such an environment will require managers to:

- Focus on the basics such as infrastructure, which managers can use to identify problems, anticipate changes and establish priorities before regulators do it for them;
- Embrace transparency, which is no longer an option, but an essential fact of life, especially in areas such as taxation, given the risk and complexity of the global tax environment; and,
- Adopt best practices in documentation and more formalized internal controls, which investors and regulators have come to expect.

Mark ended his remarks on a positive note, noting the industry’s ability to adapt and flourish saying, “We are convinced that alternative fund managers who take the steps necessary to regain and retain trust will be rewarded with significant inflows of investor assets.”
US and global regulatory reform: impact on alternative asset managers

“There are tremendous regulatory burdens now facing the industry, and expectations are very high from a regulatory perspective… and from investors. Without a doubt, the regulatory structure and enforcement profile for the industry has permanently changed. But, from a business perspective, this is a resilient and innovative industry, and it has a positive road ahead.”

The US Wall Street Reform and Consumer Protection Act, otherwise known as Dodd-Frank, and Europe’s AIFMD will heavily regulate hedge fund and private equity fund managers for the first time. In every aspect, they will shape investor behavior, guide regulator actions and ultimately place greater demands on fund operations.

Gary Meltzer, US Leader of PwC’s Financial Services Regulatory Practice, moderated a panel discussion focused on key questions surrounding the impact of the new laws on hedge fund and private equity managers, including: What are the new obligations on asset management firms? How will regulatory changes in Europe affect US managers operating overseas? What can managers expect from enforcement authorities going forward?

These questions were explored by a panel of experts that included:

Tom Biolsi, Leader of PwC’s Asset Management Regulatory Practice;

James Greig, a partner based in London with PwC’s Funds and Regulatory Practice, who advises fund managers and broker-dealers on establishing new funds and operations in the United Kingdom;

Kathryn Kaminsky, a PwC partner focused on investment advisors, private banks, investment companies, hedge funds and asset servicing entities; and,

Lori Richards, a principal with PwC’s Financial Services Regulatory Practice and the former director of the SEC’s Office of Compliance and Inspections.
**A new era of greater regulation and transparency**

- Dodd-Frank will have a significant impact on the alternative investments community in four key areas: many alternative managers will be required to register with the SEC as investment advisers; there will be new annual reporting requirements; there may be new systemic risk oversight by the Federal Reserve Board; and, the “Volcker Rule” will restrict bank proprietary trading and sponsoring activities.

- Registration will require that advisers maintain a much higher level of formality in their policies, procedures, internal controls and disclosures than ever before. While advisers to venture capital funds will be exempt from registration, advisers to private equity and hedge funds will need to register by July 2011. Even if exempt from registration, many advisers will still need to submit regular data to the SEC.

- New “transparency” requirements will mean that once-proprietary information such as a fund’s investment strategy, its gross and net asset values, a breakdown of investments by asset class and fair value categories, the number and types of investors in a fund, and the identities of fund service providers, etc., may soon be public for all competitors, potential investors and counterparties to see.

- Importantly, the government is now looking to evaluate whether financial and non-financial firms present systemic risk to the financial system. An open question is whether alternative managers will be deemed to pose potential systemic risks and therefore be subject to new regulation by the Federal Reserve.

“Registration is not something to be taken lightly. It’s not as simple as filling out a form and submitting it to the regulator. It’s a big deal and will entail a greater level of transparency than has ever existed in the past.”

*Lori Richards, Principal, PwC*
Cross-border approaches to regulation and enforcement are converging

- There are still good routes to the European market for US domiciled managers in the next few years leading up to full implementation of the AIFMD. Some aspects of the AIFMD and Dodd-Frank are similar—notably in the areas of registration, systemic risk oversight and transparency. Managers will face a similar “transparency penalty,” in terms of what is disclosed to investors and regulators regarding once-private information about strategies, markets, investments and counterparties.

- The style of European regulation is changing. The days of hands-off or “light touch” regulation are over, and hedge funds should expect to encounter more “toothy tigers” in their regulators. Cooperation among regulatory and enforcement bodies around the world is increasing in a significant way. For example, investigators are working across multiple borders to prosecute insider trading cases.

  “For large institutions that have built infrastructure to cope with regulatory change, there could be tremendous opportunity, in terms of moving quickly to gain competitive advantage. So the mood in Europe is... it’s bad, but we can live with it; and, frankly, we’ll exploit it.”

  James Greig, Partner, PwC Legal

Heightened enforcement activity is here to stay

- Insider trading is a priority for regulators because they believe more attention should be paid to whether or not organizations truly understand the flow of information coming in, going out, how trades are affected, and whether or not firms are effectively identifying that information, monitoring that information and identifying questionable transactions.

- The SEC and Department of Justice are also focused on the misappropriation of assets—not just at the Ponzi scheme level but also at the operating level, where cases can be brought involving misclassifying expenses, overcharging fees and conflicts of interest against both the firm and the individual.

- The government is using techniques, authorities and resources that it has never used before to investigate and prosecute cases. For example, they are paying compensation to whistleblowers, striking deals with cooperators and using wire taps, a tactic once reserved for prosecuting organized crime cases. While the SEC’s whistleblower program has yet to take shape, the number of complaints and tips brought to the SEC has increased radically since July 2010, and—as recent news accounts make clear—the SEC is already acting on those tips.

  “To immunize against more aggressive enforcement activity, it’s vital that funds understand the practices and internal controls of their organizations and not delegate compliance to a back-office function. Advisers need to make compliance part of the fiber of the organization, so they can demonstrate to regulators that they’re actively monitoring, and are able to follow up on, red flags.”

  Tom Biolsi, US Leader, Asset Management Regulatory Practice, PwC
The “Volcker Rule” will have a long tail in terms of its impact on the alternative investments industry. The way banks deal with new proprietary trading and ownership limits will be an important theme in the next few years, as large institutions size up the marketplace and decide how, and if, they are going to compete. Institutions are taking the opportunity to re-examine their proprietary trading operations from a fresh perspective and evaluate how returns would look if they were to spin off those operations.

Barriers to entry such as regulatory, technology and capital requirements will prevent many smaller trading operations from branching out on their own. Expect to see large groups of firm employees moving en masse to another firm or migrating to another part of an institution’s platform.

Innovation will not be affected by these limits. Banks are viewing the limits as an opportunity to use their considerable heft to foster growth, acquire a minority stake in a group or introduce new products into distribution channels.

“It’s important for institutions to focus on the positives of the Volcker Rule. We believe that innovation is yet to come... It’s just going to come differently. Financial institutions have an unlimited capacity for change, and we believe they’re going to embrace this rule in a very positive way.”

Kathryn Kaminsky, Partner, PwC
Industry trends and challenges: tax, accounting, finance and internal controls

“We are past the crisis, but now we must manage through the repercussions of reform. Performance is, and remains, important, but you can’t survive on performance alone. You also need to foster a culture of transparency and risk management in your organization and think about infrastructure in a different way. There is a great deal of upside potential for the industry. But if we don’t get the infrastructure part right, we won’t be able to capitalize on the opportunity.”

Will Taggart, US and Global Leader, Asset Management Tax Practice, PwC

Fund structures and operations are under more scrutiny than ever as investors, regulators and tax authorities demand greater transparency, more robust controls and greater articulation of risk. Funds clearly recognize the need to improve efficiencies, streamline back-office operations and standardize reporting to satisfy these demands, but the road ahead is filled with conflicting priorities and competing demands on resources.

Against this backdrop, Will Taggart, US and Global Leader of PwC’s Asset Management Tax Practice, led a lively panel discussion focused on key questions facing fund compliance and finance professionals such as: Will better internal control reports actually improve transparency? How can funds best implement the next wave of rules? How are managers going to address broad information reporting regimes such as FATCA and cost-basis reporting? Should managers relocate their operations to avoid higher taxes and greater regulation?

These questions were explored by a panel of experts that included:

Gina Biondo, New York Leader of PwC’s Alternatives Investments Tax Practice;

Mike Greenstein, PwC’s Global Alternative Investments Leader and New York Alternative Investments Assurance Leader;

David Shapiro, Principal in the International Tax Services Practice of PwC’s Washington, D.C. National Tax Office and former Senior Counsel in the Office of Tax Policy at the US Treasury; and,

Oscar Teunissen, Global Leader of PwC’s International Tax Services Group for Financial Services.
After the deluge: fine-tuning, closing loopholes and other developments

• It has been an event-free year from an accounting development perspective, but we now have more clarity around disclosure on valuation techniques and inputs by major asset class, as well as for the treatment of open derivative positions on the schedule of investments.

• Looking forward, changes to revenue recognition models could determine how asset managers recognize asset and performance-based fees. In addition, the SEC’s focus on custody issues will force both hedge fund and private equity managers to demonstrate compliance around custody controls and procedures, as well as to better document the inventory of all assets under management across various funds and accounts.

• Earlier this year, Congress created a single standard of “economic substance” in determining when or whether a transaction should be deemed to have economic value from a tax perspective, imposing significant penalties for non-compliance. If a transaction is found to lack economic substance, fund managers could face a 20 percent penalty. If the transaction is not properly disclosed on the fund’s tax return, another 20 percent penalty could follow.

• FIN 48 is here to stay. There are no “Get Out of GAAP cards.” One example is a recent development surrounding reserves on financial statements, which will now need to be recorded on tax Schedule UTP – Uncertain Tax Position. While private investment partnerships are exempt from this rule for 2010, corporations that file US tax returns will need to think carefully about the impact of this new schedule, especially as it relates to underlying pass-through entities.
With rates in flux, it’s back to basics for tax planning and strategy

• With the fate of the Bush tax cuts unknown at the time of the seminar, panelists discussed the potential outcomes from failing to extend the tax cuts including the impact on personal income tax rates and many popular business benefits.

• New cost basis reporting rules for brokers, effective January 1, 2011, will force many funds to more closely examine their lot-relief methods for tax purposes because of expanded reporting required by prime brokers. The broker-default, if no instructions are provided, is the “First-In, First-Out” method. Funds should work with their brokers to more closely align their reporting methodologies to the extent possible recognizing, however, that 1099B filings will have discrepancies from what is reported on funds’ tax returns.

• Tax risk trends:
  – Foreign investor certification status filings are prone to a number of deficiencies such as incomplete and expired forms or not having an original signature on file, which could give rise to significant penalties.
  – If funds do not fully disclose transactions in gross proceeds, the statute of limitations on tax returns may extend to six years.
  – The IRS recently issued more guidance on reportable transactions, especially disclosure around potential losses coming from underlying funds, guiding toward greater disclosure on a fund’s tax return, with penalties for non-compliance.
  – With the help of new technology, the IRS can more efficiently and effectively match up the tax returns of a fund and its investors, helping to spot inconsistencies that lead to follow-up actions or rejected returns.

“Uncertainty has made tax planning very difficult, and most fund groups are preparing for both a rising and stable tax environment. That means a back-to-basics tax planning strategy of accelerating losses and deferring gains.”

Gina Biondo, New York Leader, Alternative Investments Tax Practice, PwC

Foreign tax structuring is vital to fund managers operating across borders

• As the United Kingdom (UK) struggles with fiscal challenges, the top tax rate in 2011 will be 50 percent for income above £150,000 and some previously recognized income will have to be deferred. This will put a tremendous amount of pressure on asset managers based in the UK, but also on US managers operating there. Fund managers may be able to offset the impact of new taxes by using limited liability partnership structures that generate a national insurance tax benefit or strategies that allocate income to the general partner at a lower tax rate, rather than to a corporate entity.

• Tax-friendly money centers such as Switzerland, Singapore and Hong Kong—where effective tax rates are low, country balance sheets are strong and authorities are receptive to mitigating tax approaches—hold more appeal than ever to alternative fund managers with global operations. Higher tax rates abroad could generate significant excess credits for foreign taxes paid, so long-term tax planning is key, particularly for firms with senior partners moving from the US to the UK.

“A focus on transparency has been a big driver in the G-20. Offshore financial service centers have been very active in striking exchange of information treaties with the key countries where investors are based. Expect there to be an avalanche of data provided from these jurisdictions to the tax authorities.”

Oscar Teunissen, Global Leader, International Tax Services Group for Financial Services, PwC
Enacted in early 2010 and effective in 2013, FATCA creates a new requirement directing foreign financial institutions, including hedge funds, to report their US account holders and investors to the IRS. Under the new law, if a fund does not execute an agreement with the IRS to disclose its US investors, the IRS will impose a withholding tax of 30 percent on all US-sourced interest and dividends a fund earns, as well as a 30 percent withholding tax on the gross proceeds on the sale of securities that generate that type of income. Importantly, the withholding would apply to a sale even if it generates a loss for the fund or if a counterparty has not executed an agreement with the IRS.

The OECD’s Treaty Relief and Compliance Enhancement project (TRACE) is designed to develop a multilateral, unified reporting system to combat offshore tax evasion among its member countries. While it is linked to the ability of investors to secure lower treaty rates, it could dwarf FATCA in terms of scope and impact. Managers are urged to stay vigilant about tax issues, as change is inevitable, especially on the international tax front.

Asset managers are being very proactive on tax compliance issues, in terms of connecting the front office with the back office. By embedding that philosophy in the DNA of an organization, fund managers can more quickly identify the true cost of a trade and deal with tax accruals on a real-time basis. Asset managers are also proactively looking at planning strategies to mitigate the impact of foreign taxes such as the use of swaps or treaty-based vehicles.

Offshore tax compliance is a priority for the international authorities

“We’re not screaming fire, but prudence dictates that you be prepared. Familiarize yourself with the rules, not only to understand technicalities and how worst-case scenarios might develop, but also to position your fund to respond quickly as the rule-making process unfolds.”

David Shapiro, Principal, International Tax Services Practice, PwC

One essential truth in the alternative investments industry is that compliance practices once thought of as “nice-to-haves” definitely will become the “must-haves” of the future. As large asset managers diversify into new products and distribution channels, they are building scalable infrastructure to handle a broader range of reporting, compliance and internal control needs.

There has also been a greater focus on transparency and governance, especially on the valuation side. A valuation survey recently published by PwC underscores how hedge funds and private equity funds are closing the gap with traditional asset managers in terms of valuation best practices.

Given the increasing complexity associated with financial reporting, the alternative investments industry should view the reporting cycle as a process unto itself. Too often, investment professionals view financial reporting as an end result. But, given the risk and complexity associated with the process—especially when things fail to go right—managers need to dedicate the right people, and give them the right tools, to build the right controls, just as they would for any other process in the organization.

Internal control, or AT 101, reports can help provide operational transparency to investors. For funds that do not want to commit to this level of disclosure, there are other options such as a readiness, or diagnostics, report that outlines the issues, timing and potential resource demands on an organization.

Scalable and sustainable operating infrastructure is a prerequisite for success

“Our industry is proudly known as investment risk takers, but not operational risk takers and definitely not reputational risk takers. Today, the focus is all about building an infrastructure that is scalable and sustainable.”

Mike Greenstein, Global Alternative Investments Leader, New York Alternative Investments Assurance Leader, PwC
Keynote discussion: the view from Washington

“I’ve been saying for a while that at some point, alternative investments will be like touch-tone phones or automatic transmission… the rule, not the exception. But the size of this group suggests we’re getting there very quickly.”

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Divided control of the government has returned to Washington, D.C. Regulators are scrambling to issue regulations to implement Dodd-Frank. How will the new political landscape in Congress impact the rule-making process? How will the financial services industry be impacted? What are the regulators focused on? The panel provided the audience with an insider’s view of how events are unfolding in Washington, D.C. with thought-provoking commentary on everything from the latest proposed rules for Dodd-Frank, the “flash crash” and ongoing insider trading investigations to funding levels for the SEC.

These issues and more were addressed in a keynote discussion moderated by Mike Santoli, Associate Editor for Barron’s magazine, featuring:

Laura Cox Kaplan, Partner-in-Charge of PwC’s Government, Regulatory Affairs and Public Policy group;

Annette L. Nazareth, a Partner at Davis Polk & Wardwell LLP and a former SEC Commissioner; and,

Harvey Pitt, Founder and CEO, Kalorama Partners and former Chairman of the SEC.

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Michael Santoli, Associate Editor, Barron’s
• Managers need to pay attention to the results of the November 2nd mid term elections. Republican gains in the House of Representatives, which allowed them to secure control of that chamber, coupled with gains of seats in the Senate, means that Republicans will have a stronger voice than in the past two years. It also means that any significant new legislation will require compromise from both political parties and the Obama administration in order to become law.

• Of equal importance is the looming 2012 presidential election when President Obama, a majority of Democratically-held Senate seats and all House members will be up for reelection. In the Senate, Democrats will be defending 23 seats, including eight in states that Senator John McCain carried during the 2008 election. In contrast, Republicans will only have to defend 10 seats in the 2012 elections.

• House Republicans are likely to conduct significant oversight of previously passed laws including health care reform and Dodd-Frank. As part of that oversight, attempts may be made to shape or “tweak” through legislation some of the more controversial, politically divisive aspects of Dodd-Frank. But questions remain: Can such efforts attract enough bipartisan support to get bills to the president’s desk, and if so, would the president sign them? Or, if the president vetoed such bills, could enough bipartisan support be marshaled to override the veto? There are too many unknowns at this point to realistically answer those questions.

• Republicans have to be mindful of overreaching—if they go too far, they may alienate independents, which have become a significant voting bloc. On November 2nd, independents voted for Republicans by an 18-point margin—precisely the same margin that independents voted for Democrats in the 2006 midterm elections, when they won control of the House.

“Split-party control of Congress means a significant slowdown in the pace of new legislation. Any significant new legislation will require compromise from both political parties and the Obama administration to become law. Efforts aimed at repealing politically-divisive aspects of Dodd-Frank, for example, will be difficult or impossible without significant bipartisan support.”

Laura Cox Kaplan, Partner-in-Charge, Government, Regulatory Affairs and Public Policy, PwC

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How the 2010 elections will affect the alternative investments industry
Potential flashpoints in 2011 and beyond

• In 2011, House Republicans could turn their attention to the regulation of derivatives, the creation of the Consumer Financial Protection Bureau, the liability for credit rating agencies and, potentially, the Volcker Rule’s approach to managing systemic risk. There may also be an increased interest in addressing excessive litigation that is seen to undermine the competitiveness and economic growth of the United States.

• The economy, deficit and the need to address unemployment provide the overlay for much of the action and debate going forward. The White House’s willingness to compromise around extending the Bush-era tax cuts provided the first significant reference point on how seriously President Obama is taking these challenges, and it signaled his recognition of the need to compromise in order to advance his broader objectives. Additionally, the president’s bipartisan deficit reduction committee report sets a high bar for the debate that will likely occur over the next two years around issues ranging from entitlement reform, tax reform and cutting the deficit to reducing government spending.

Lessons from the “flash crash”

• The SEC and the Commodity Futures Trading Commission (CFTC) have spent thousands of hours trying to map out and identify the correlations and interrelationships that caused the market to suddenly drop five percent in a 19-minute span in May 2010. Everyone was affected, from individual traders to very sophisticated program traders, which largely backed away from trading activity at the first sign of trouble. The event has drawn regulators’ attention to high-frequency traders and their role in providing liquidity to the equity markets, as well as the use of “stub quotes” by market makers—both of which had a negative impact on market confidence.

• Several recent market structure changes reacted to the volatility in unanticipated ways, such as the New York Stock Exchange liquidity replenishment vehicle, a circuit-breaker which did not pause trading activity across markets as originally conceived, since so much liquidity has migrated to other trading platforms. As a result, the SEC has imposed stock-by-stock circuit-breakers, first for the S&P 500 and later for the Russell 1000, across all markets. The SEC is also contemplating reforms to generate better audit trail data, as well as more scrutiny of trading algorithms and electronic trading systems. High-frequency trading will remain in the spotlight as regulators re-examine their market-making and liquidity provider roles.
**Insider trading in the headlines: what it means for the industry**

- The environment in Washington right now is heavily pro-enforcement. Leaks about insider trading investigations suggest the government is very anxious to get credit for being on top of the markets, being knowledgeable and prosecuting cases where they believe wrong-doing has occurred. From the perspective of regulators, insider-trading cases are a preferred enforcement action, and the alternative investments industry would be well-advised to focus on compliance policies and procedures. Many people in the industry today may not be old enough to recall the significant insider trading prosecutions of the past—thus reducing the deterrent value of those cases and the “lessons learned.”

- The US Attorney’s office is not going to bring “gray area” cases against hedge funds; there is too much risk of failure. The SEC, however, as a civil agency, has a great deal more leverage, and they will focus on ancillary players such consultants who can be a conduit for material, non-public information. If fund managers are expecting the benefit of a doubt in the recent round of investigations, the only place they are likely to get it is in court, and by that time it is too late for a manager’s reputation and business.

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**Implementing financial reform**

- The midterm election has brought to power elected officials who are committed to reducing the size of the deficit and spending. The issue for the SEC and CFTC is not whether they will promulgate smart, sensible rules—the problem is going to be what happens next? Without more funding, there will not be sufficient staff resources to sift through industry feedback and make good decisions, much less implement the new rules when they take effect.

- The appropriations process is a powerful tool for Congress. Funding the SEC and CFTC at current or 2008 levels, as some in Congress have proposed, does not give the agencies the resources they need to fully implement Dodd-Frank reforms, so Congress holds considerable sway over the future of these rules.

- The funding vacuum creates an opportunity for the alternative investments industry to have an impact by being constructive—not destructive or antagonistic—and providing thoughtful suggestions at a time when the government needs creative solutions. This is a time when industry leaders should be exercising their voices; otherwise, they will not be heard.

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“Insider-trading requires the skills of a Sherlock Holmes rather than an Oliver Wendell Holmes, which means from the perspective of regulators, its low-hanging fruit.”

**Harvey Pitt, Founder and CEO, Kalorama Partners, and Former Chairman of the SEC**

“Implementing financial reform is not influence peddling in Washington; this is people trying to help. And I think the regulators have been very amendable to having that help.”

**Annette L. Nazareth, Partner, Davis Polk & Wardwell LLP and a Former SEC Commissioner**
10th Annual Alternative Investments Seminars

PwC’s Speakers

**Boston – December 9th**
- Kristin Francisco
- Timothy Grady
- Paul Hanley
- Jeff Maddrey
- John Muroff
- Scott Pomfret
- Mark Rosenblatt
- Rob Sciadone
- Joanne Sisk
- Paula Smith
- Valerie Tixier

**Los Angeles – December 8th**
- Mark Casella
- Greg Collins
- Brian Flaherty
- Todd Humphrey
- Rebecca Lee
- Sam Melehan
- Alison Monahan
- Tomoko Nagashima
- Rob Nisi
- David Shapiro
- Will Taggart
- Oscar Teunissen

**San Francisco – December 7th**
- Mark Casella
- Greg Eckert
- Jon Kropf
- Rebecca Lee
- Rob Nisi
- Cindy Powers
- Brian Rebhun
- Paul Roberts
- Will Taggart

**Chicago – December 16th**
- Puneet Arora
- Jim Lelko
- Scott Pomfret
- Brian Rebhun
- David Shapiro
- Paula Smith
- Will Taggart
- Joe Wiggins
- Michele Zahler

**Minneapolis – December 9th**
- Jim Kolar
- Rebecca Lee
- Brian Rebhun
- Will Taggart
- Oscar Teunissen
- Betsy Thedford
- Jennifer Ward

**Seattle – December 9th**
- Mark Casella
- Rick Giolitti
- Michele Godvin
- Chris Hugo
- Sam Melehan
- Heather Nelson
- Rob Nisi
- Stuart Rosengren
- Allison Rosier
- Chris Seel
- David Shapiro

**Dallas – December 15th**
- Jason Becker
- Bob Collins
- Robert Cowley
- Sean Cragun
- Louis Koven
- Sam Nassi
- Brian Rebhun
- Allison Rosier
- Paula Smith
- Will Taggart

**New York – December 2nd**
- Tom Biolsi
- Gina Biondo
- Mark Casella
- Mike Greenstein
- James Greig
- Kathryn Kaminsky
- Laura Cox Kaplan
- Gary Meltzer
- Lori Richards
- David Shapiro
- Will Taggart
- Oscar Teunissen

**Washington, DC – December 16th**
- Matt Brockwell
- Mark Casella
- David Gilbertson
- Tom Holly
- Kent Knudson
- Jeff Maddrey
- John Oliver
- John Reville
- Jane Steinmetz

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**With a special thanks to our New York keynote speakers:**

- Annette Nazareth, Partner, Davis Polk & Wardwell LLP
- Harvey L. Pitt, Founder and CEO, Kalorama Partners
- Mike Santoli, Associate Editor, Barron’s
PwC is a recognized leader in serving both traditional and alternative investments management products. Our alternative investments group provides clients with:

- Coordinated accounting, tax and advisory knowledge
- Tax experience—domestically and internationally—on the tax planning and structuring issues associated with alternative investments strategies and products
- Assistance preparing for SEC requirements and oversight as a registered investment adviser
- Industry knowledge to allow you to benchmark your practices against others in the industry
- Established relationships with the major participants in the marketplace

A virtual binder for PwC’s 10th annual alternative investments seminar is posted online at www.pwc.com/us/alternatives2010, including the following publications and other resources:

- 10th annual alternative investments seminar: The road ahead
- A Closer Look: Impact on Alternative Asset Managers
- From black box to open book Hedge fund trust and transparency
- PwC alternatives alert
- Asset Management Valuation survey
- Financial Services Regulatory Briefs

A call for your ideas…
Tell us what issues and questions you would most like to see included on the agenda for upcoming discussions about alternative investments. For more information, contact Jennifer Murray at Jennifer.a.murray@us.pwc.com.
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