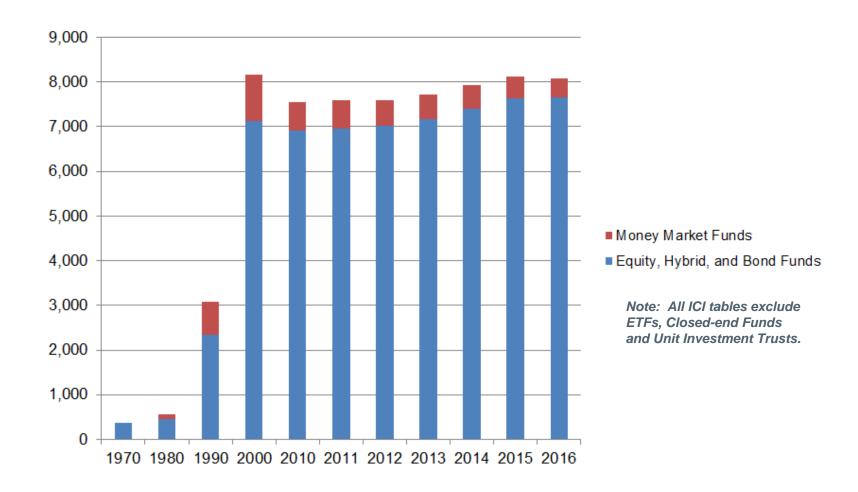


2017 WASHINGTON D.C. INVESTMENT MANAGEMENT CONFERENCE

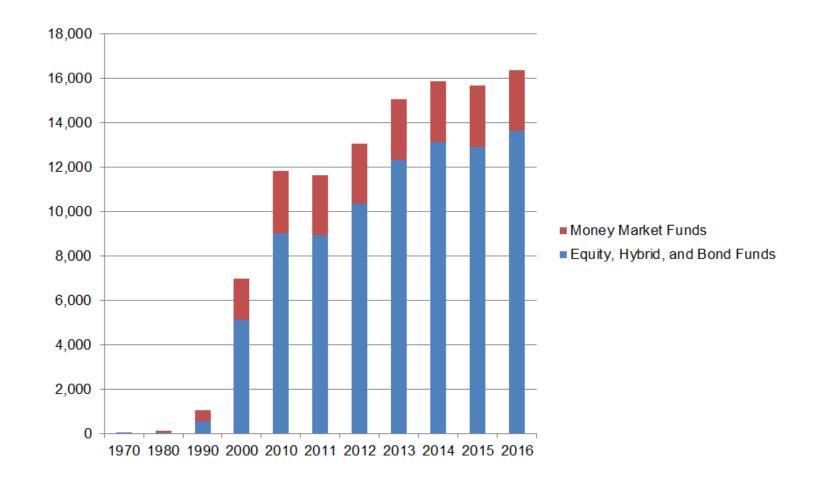
# Overview of the Investment Company Complex

Clifford J. Alexander, Partner, K&L Gates LLP

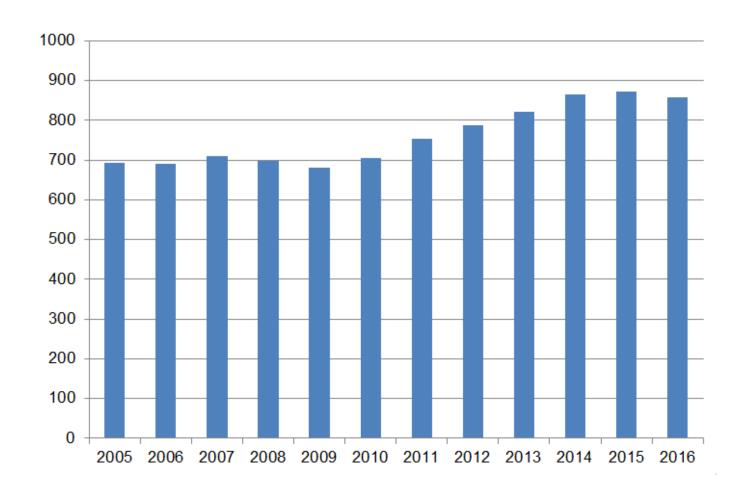
## **NUMBER OF MUTUAL FUNDS**



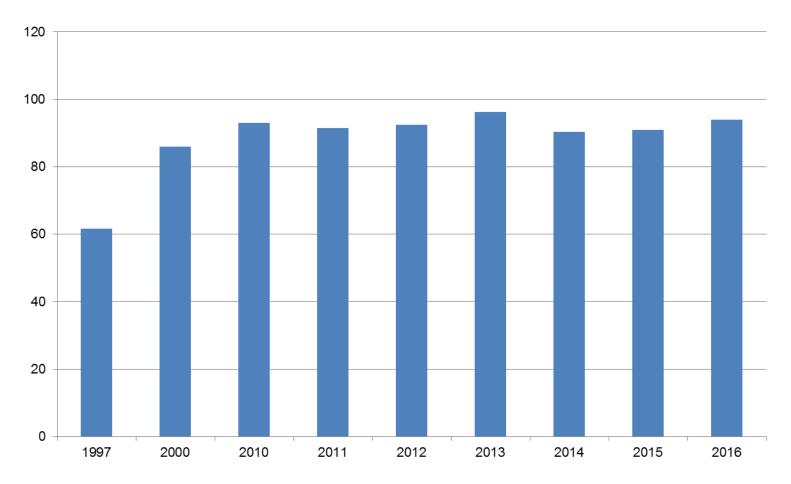
# ASSETS OF MUTUAL FUNDS (BILLIONS OF DOLLARS)



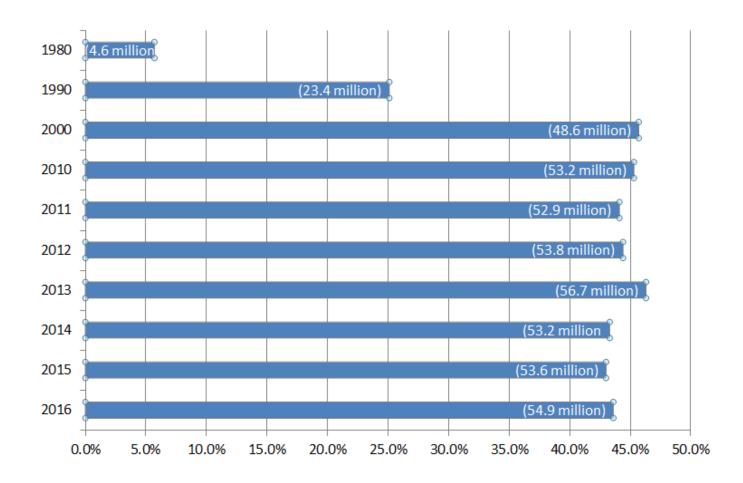
## NUMBER OF MUTUAL FUND SPONSORS



# NUMBER OF MUTUAL FUND SHAREHOLDERS (MILLIONS)



# HOUSEHOLD OWNERSHIP OF MUTUAL FUNDS (PERCENT OF U.S. HOUSEHOLDS)



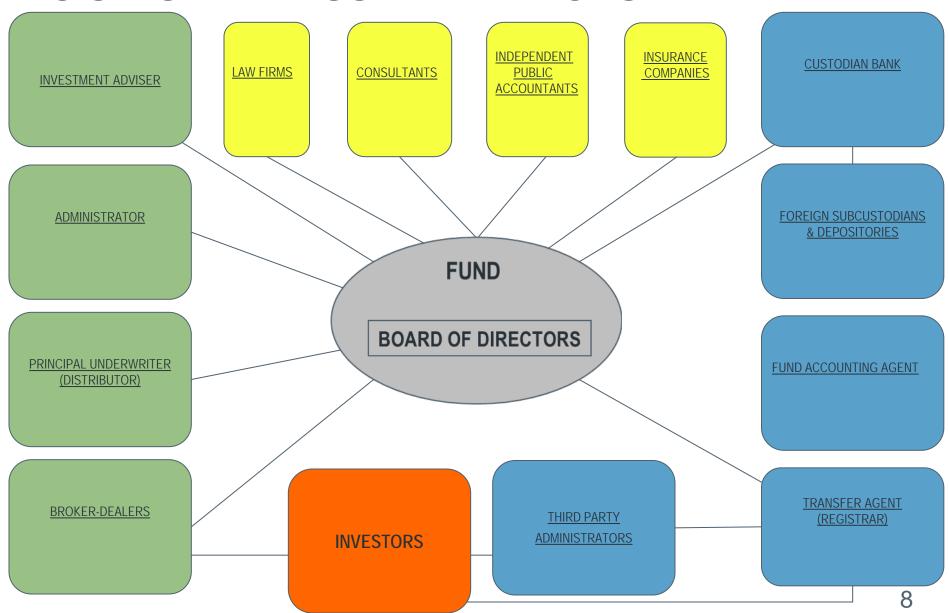


## **FUND INDUSTRY PLAYERS & REGULATION**

- U.S. Fund Industry Vendors
- Principal Services of Fund Vendors
- Principal Regulatory Statutes and Regulators for Fund Vendors
- Mutual Fund Distribution Channels



# **U.S. FUND INDUSTRY VENDORS**



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## PRINCIPAL FUND INDUSTRY VENDORS

### **INVESTMENT ADVISERS**

- Vanguard
- Fidelity
- Capital Research
- J.P. Morgan Chase
- T. Rowe Price

### LAW FIRMS

- K&L Gates LLP
- Dechert
- I0 other prominent firms (est.)
- 30 other small practices (est.)

### CONSULTANTS

- Morningstar
- Broadstreet
- Accounting Firms
- Investment Bankers
- Law Firms
- Other

### ACCOUNTING FIRMS

- Pricewaterhouse-Coopers LLP
- Deloitte & Touche LLP
- KPMG LLP
- Ernst & Young LLP
- Tait Weller & Baker LLP
- Cohen & Company

### **INSURANCE COMPANIES**

- ICI Mutual
- Chubb
- St. Paul
- Travelers
- AIG
- CNA

### **CUSTODIANS**

- State Street
- Chase
- BNY/Mellon
- PNC
- · Brown Bros.

### **ADMINISTRATORS**

- Affiliated
- Independent
  - Federated
  - SFL
  - ALPS Fund Services
  - Northern Trust
  - BNY/Mellon
  - · U.S. Bancorp

### · State Street Chase

FOREIGN SUBCUSTODIANS

- BNY/Mellon
- Deutsche Bank
- Brown Brothers

### **FUND**

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### TRANSFER AGENTS

- Fidelity
- State Street
- Vanguard
- BNY/Mellon
- U.S. Bank
- DST
- BFDS

### PRINCIPAL UNDERWRITER

- Affiliated
- · Independents are affiliates of independent administrators

### **INVESTMENT ADVISER**

- Develop Products
- Manage Portfolios
- Place Trades
- Compliance
- Monitor Sub-Advisers

### LAW FIRMS

- Legal
- Consulting

### **CONSULTANTS**

- Marketing Plans
- Contract Review Data
- Performance Data
- Board Governance Advice

### INDEPENDENT PUBLIC

- ACCOUNTANTS
- Audit
- Tax Returns
- Consulting

### **INSURANCE COMPANIES**

- Fidelity Bond (Required)
- Directors and officers/errors and omissions insurance
- Supplemental coverage for independent directors
- Cybersecurity policy

### CUSTODIAN BANK

- Safekeeping for Assets
- Deposit Accounts
- Fed Wire Orders
- Securities Loans
- Dividend Disbursing
- Repurchase
   Agreements
- Line of Credit

#### **ADMINISTRATOR**

- Office Space
- Corporate Officers
- Board Meetings
- Minutes
- Preparing SEC
   Documents and reports
- Compliance

### FUND

### FOREIGN

SUBCUSTODIANS & DEPOSITORIES

### FUND ACCOUNTANT

- Pricing of Portfolio Assets
- Fund Accounting
- Share Price Calculations

# PRINCIPAL UNDERWRITER (DISTRIBUTOR)

- Advertising
- Marketing
- •Wholesaling

### **BROKER-DEALERS**

- Sales and Redemptions of Fund Shares
- Execute Portfolio Brokerage Orders
- Research
- Clearance and Settlement
- Settlement Pricing Assistance

### **INVESTORS**

## THIRD PARTY ADMINISTRATORS

 Sales and Redemptions of Fund Shares

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Shareholder Records

## TRANSFER AGENT (REGISTRAR)

- Shareholder Records
- Process Orders
- Confirmation Statements
- Monthly Statements

### **INVESTMENT ADVISER**

- Develop Products
- Manage Portfolios
- Place Trades
- Compliance
- Monitor Sub-Advisers

- Scope of investment adviser's responsibilities
- •Contract requirements, including:
  - Written contract
  - Manner of approval and amendment
  - Description of compensation
  - Manner of continuance
  - Termination upon "assignment" no trafficking
- Other advisory contract considerations

### **ADMINISTRATOR**

- Office Space
- Corporate Officers
- Board Meetings
- Minutes
- Preparing SEC
   Documents and reports
- Compliance

- Corporate Matters
- Regulatory Filings
- Contract considerations
- Transfer Agents and Providers of Related Shareholder Servicing
- Responsibilities
- Contract considerations

# PRINCIPAL UNDERWRITER (DISTRIBUTOR)

- Advertising
- Marketing
- Wholesaling

### BROKER-DEALERS

- Sales and Redemptions of Fund Shares
- Execute Portfolio Brokerage Orders
- Research
- Clearance and Settlement
- Settlement Pricing Assistance

- Marketing and Distribution of Fund Shares
- Contract requirements, including:
- Written contract
- Manner of approval and amendment
- Termination upon assignment
- 12b-1 Plans Funds Paying for Distribution

- Safekeeping of the Fund's Assets
- General Investment Company Act requirements applicable to types of custody arrangements:
- Bank custody
- Broker-dealer custody
- Self-custody
- Central depositories and book-entry systems
- Margin for futures contract transactions
- Foreign custody

### **CUSTODIAN BANK**

- Safekeeping for Assets
- Deposit Accounts
- Fed Wire Orders
- Securities Loans
- Dividend Disbursing
- Repurchase Agreements
- Line of Credit

FOREIGN
SUBCUSTODIANS
& DEPOSITORIES

### FUND ACCOUNTANT

- Pricing of Portfolio Assets
- Fund Accounting
- Share Price Calculations

# TRANSFER AGENT (REGISTRAR)

- Shareholder Records
- Process Orders
- Confirmation
   Statements
- Monthly Statements

# THIRD PARTY ADMINISTRATORS

- Sales and Redemptions of Fund Shares
- Shareholder Records

### LAW FIRMS

- Legal
- Tax
- Consulting

### **CONSULTANTS**

- Marketing Plans
- Contract Review Data
- Performance Data
- Board
   Governance
   Advice

# INDEPENDENT PUBLIC

### **ACCOUNTANTS**

- Audit
- Tax Returns
- Consulting

# INSURANCE COMPANIES

- Fidelity
- D&O/E&O
- Independent Directors
- Cybersecurity

# INDEPENDENT PUBLIC ACCOUNTANTS

- Audit
- Tax Returns
- Consulting

- Selection of Accounting Firm
  - Independent directors approve in person
  - Shareholders
  - Rule 32a-4
- Defining the Scope of Services
- Sarbanes-Oxley Act imposes additional requirements regarding auditor independence

## **INSURANCE COMPANIES**

### **INSURANCE COMPANIES**

- Fidelity Bond (Required)
  - Amount
  - Form of bond
  - Annual consideration
  - Filing of bond
- Directors and officer/errors and omissions liability insurance
  - Industry practice
  - Form of policy
- Supplemental coverage for independent directors
- Cybersecurity policy

#### **INVESTMENT ADVISER**

- Registered and Regulated Under Investment Advisers Act of 1940 (SEC)
- Also Regulated Under Investment Company Act of 1940 (SEC)

#### LAW FIRMS

- Not required to register
- Advise clients on regulatory requirements

### **CONSULTANTS**

- Not required to register
- Should understand regulatory requirements applicable to advice

### INDEPENDENT PUBLIC

- ACCOUNTANTSNot required to register
- Must conduct audits consistent with SEC requirements

## INSURANCE COMPANIES

- Regulated by PCAOB
- Regulated by states

### **CUSTODIAN BANK**

**FOREIGN** 

**SUBCUSTODIANS** 

& DEPOSITORIES

- Organized and Regulated Under Banking Laws (US or States Bank Agencies)
- Also Subject to Some Provisions of Investment Company Act of 1940 (SEC)

#### **ADMINISTRATOR**

- · Not Required to Register
- Must Comply with Requirements Applicable to Funds Under Investment Company Act of 1940 (SEC)

## PRINCIPAL UNDERWRITER (DISTRIBUTOR)

- Registered and Regulated Under Securities Exchange Act of 1934 (SEC)
- Also Regulated Under Investment Company Act of 1940 (SEC)

### **FUND**

### FUND ACCOUNTING AGENT

- Not Required to Register
- Must Comply with Requirements Applicable to Funds Under Investment Company Act of 1940 (SEC)

### **BROKER-DEALERS**

- Registered and Regulated Under Securities Exchange Act of 1934 (FINRA and SEC)
- Also Subject to Some Provisions of Investment Company Act of 1940 (SEC)

### **INVESTORS**

# THIRD PARTY ADMINISTRATORS FOR RETIREMENT PLANS

Regulated Under Employee
 Retirement Income Securities Act of 1974 (Dept. of Labor)

### TRANSFER AGENT REGISTRAR

- Registered and Regulated Under Securities Exchange Act of 1934 (SEC or Bank Agencies)
- Must Comply with
   Requirements Applicable to
   Funds Under Investment
   Company Act of 1940 (SEC)

19

## **INVESTMENT COMPANY ACT OF 1940**

- Issues Addressed by 1940 Act (§2(b))
  - Inadequate disclosure
  - Managed to benefit advisers and other affiliates
  - Unsound valuation and accounting
  - Changes in fundamental operations without shareholder approval
- Four Requirements Imposed by 1940 Act on Directors
  - Approval of advisory agreements
  - Approval of underwriting agreements
  - Approval of Independent Auditors
  - Valuation of securities for which no "market quotations are readily available"

### INVESTMENT ADVISER

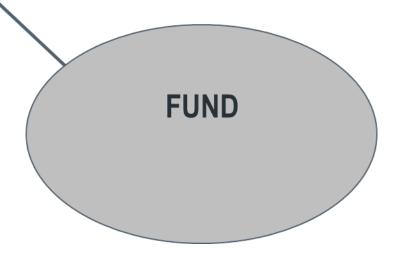
- Registered and Regulated Under Investment Advisers Act of 1940 (SEC)
- Also Regulated Under Investment Company Act of 1940 (SEC)





### **ADMINISTRATOR**

- Not Required to Register
- Must Comply with Requirements Applicable to Funds Under Investment Company Act of 1940 (SEC)



# PRINCIPAL UNDERWRITER (DISTRIBUTOR)

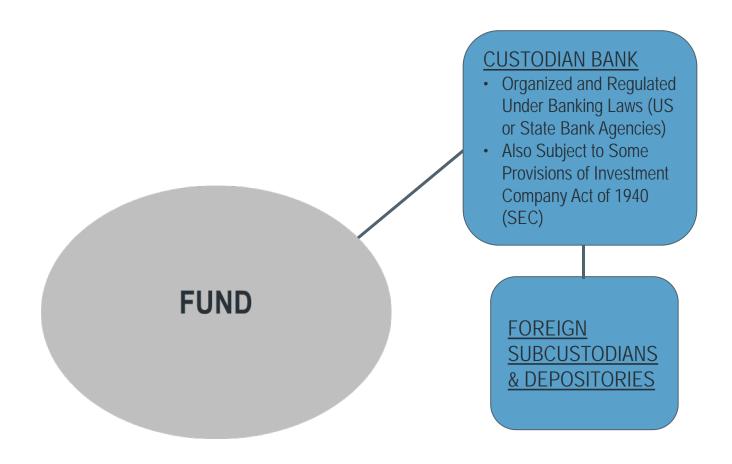
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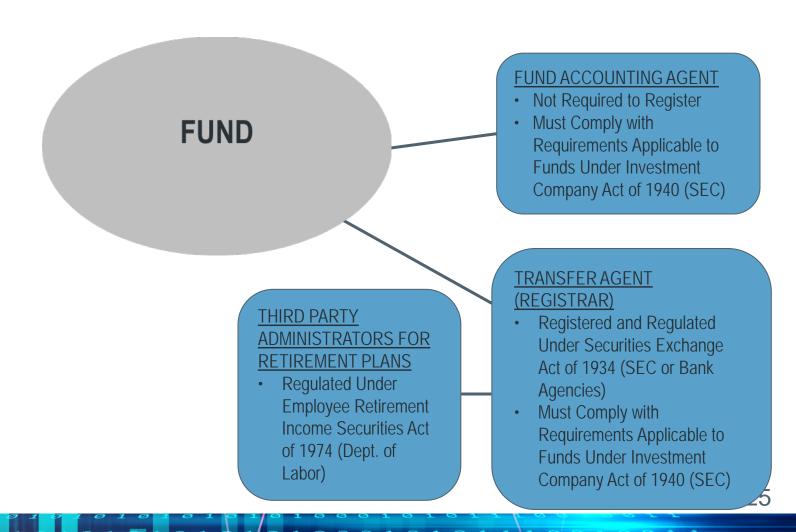
### BROKER-DEALERS

- Registered and Regulated Under Securities Exchange Act of 1934 (FINRA and SEC)
- Also Subject to Some
  Provisions of Investment
  Company Act of 1940 (SEC)









### LAW FIRMS

- Not required to register
- Advise clients on regulatory requirements

### CONSULTANTS

- Not required to register
- Should understand regulatory requirements applicable to advice

### <u>INDEPENDENT</u>

### <u>PUBLIC</u>

### <u>ACCOUNTANTS</u>

- Regulated by PCAOB
- Must conduct audits consistent with SEC requirements

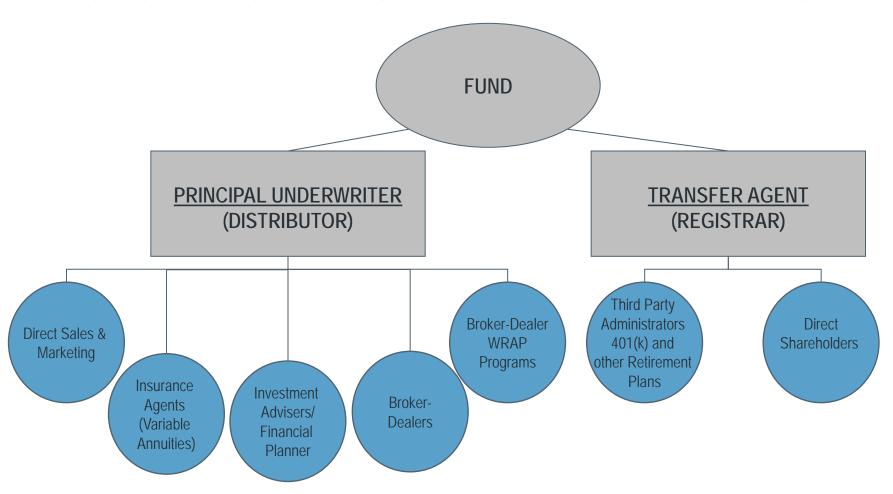
# <u>INSURANCE</u>

### **COMPANIES**

- Regulated by Public Company Auditor Oversight Board
- Regulated by states

**FUND** 

## **MUTUAL FUND DISTRIBUTION CHANNELS**





# Questions?

# K&L GATES