Pressure Points:

Handling an Aggressive SEC

BoardIQ

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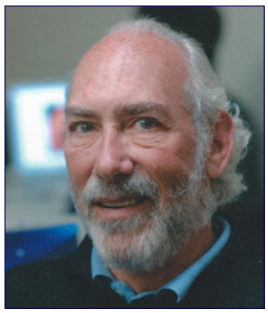

Sam Freedman
Independent Director
OppenheimerFunds

SAM FREEDMAN has been an independent director of the OppenheimerFunds since 1996 and currently serves as chairman of the board of the Denver-based funds. He is the past chair of the review committee.

In 1980 he joined OppenheimerFunds as president and CEO of its transfer agent subsidiary. During the ensuing 10 years, the agency grew from a small in-house operation to a multi-customer organization processing activity for five fund groups and handling up to five million accounts. He served as the head of the ICI operations committee and on various industry task forces, including the group that developed Fundserv, the NSCC order processing system currently in operation. From 1990 to 1994 he developed the strategic account function for OppenheimerFunds, marketing to various brokerage houses through which OppenheimerFunds distributes.

Freedman graduated from Arizona State University. After a tour as a supply officer in the Navy, he began as a systems analyst at the General Electric computer department. He then spent 10 years at Electronic Data Systems (EDS), ending as a vice president and industry center director in both banking and brokerage. He then joined the First National Bank of Fort Worth as senior vice president and chief technology officer.

Alan Goldberg
Partner
Stradley Ronon

ALAN GOLDBERG's practice focuses on representing registered investment companies and their independent board members, registered investment advisers, sponsors to unregistered investment pools and family offices. Prior to joining Stradley Ronon, Goldberg worked at another law firm, where he represented investment companies, their boards and investment advisers. Goldberg was an associate at a major New York-based law firm, where he worked on regulatory and compliance matters for large institutional asset management clients. He also served as counsel to Price Waterhouse LLP's investment management and regulatory consulting services, and as an enforcement attorney in the investment management section of the New York regional office of the U.S. Securities and Exchange Commission. There, he investigated and prosecuted violations of the federal securities laws.

Goldberg is a frequent speaker on a variety of investment advisory, investment company and compliance topics.

Anita Nagler
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State Farm

ANITA NAGLER is an independent director with the State Farm Associates' funds trust, the State Farm mutual fund trust and the State Farm variable product trust, a family of 29 mutual funds. In her role on the State Farm audit committee, she is a designated financial expert. Nagler is also a director with the Baron Capital Group, where she previously served as a consultant on an interim basis through a transition period while the firm searched for a new president. Earlier in her career, Nagler was CEO and chairman of Harris Alternatives (Aurora Investment Management) and, previously, held several other positions with its affiliate, Harris Associates, adviser to the Oakmark Funds, including director, partner, general counsel, chief operating officer and managing director of its international and alternative investing group. She began her career working in the Chicago and Los Angeles offices of the Securities and Exchange Commission, where she held various positions in the enforcement group, including the head of the enforcement division in Chicago.

Nagler is on the board of trustees of the Illinois Institute of Technology, where she chairs its finance committee.

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INTRODUCTION

Pressure Points: Handling an Aggressive SEC

The SEC's decision in 2010 to launch an asset management unit was the first of many steps to reframe the agency's approach to mutual funds. Six years later, the division has made numerous rule proposals and commenced enforcement actions that have touched nearly every layer of the industry.

Fund boards are feeling the heat. From accusations of reporting negligence to concerns of weakness in pricing, liquidity and distribution, the regulator is taking aim at boards and their directors. In May 2013, the SEC charged five Northern Lights directors over misleading disclosures about investment advisory contracts. A month later, the commission announced a settlement against eight former directors of Morgan Keegan funds that were heavily invested in securities backed by subprime mortgages, alleging that they failed to satisfy their pricing responsibilities. Following the mayhem surrounding Third Avenue's failed junk bond fund, the SEC launched a much-publicized sweep of at least 10 investment advisers in 2016, requesting materials presented to boards, committee minutes, board self-assessments and other materials.

In each of these actions, the message from the regulator was clear: board directors are responsible for engaging in deep dialogue with their service providers and not just rubber-stamping what they put forward.

Today, some directors worry that the relationship between boards and the SEC has shifted from one of partnership to something more adversarial. Some have noticed a change in the tone and tenor of meetings, with enforcement staff present in routine exams. Increased scrutiny has also thrown a bevy of new responsibilities at fund boards and a host of new issues to oversee. Still, the board's primary responsibility – to be a watchdog for shareholders – hasn't changed. Now more than ever, the board is expected to do its job.

BoardIQ convened a panel of mutual fund directors, professionals and service providers. The group outlined emerging recommended best practices for dealing with a charged regulatory environment. The results of their discussion follow.

SECTION 1:
Action Steps

ACTION STEP 1

Understand what's expected of the regulatory relationship

As the regulatory environment surrounding mutual fund boards becomes more aggressive, directors need to be careful with how they interact with the SEC. Cordial, informal meet-and-greets aimed at building a strong rapport between the regulator and the boards they govern are no more, and what is being observed now is more enforcement-staff-driven interactions, leaving less opportunity for directors to participate.

> "The board is getting more and more responsibility. How we manage that is going to be a very interesting exercise."
>
> — *Sam Freedman*

In this type of environment, panelists say, it is generally unwise to accept an open-ended informal meeting request from SEC staff.

The board is entitled to decline such requests, they say, particularly when the SEC's motive in requesting the meeting is unclear. The regulator's staff members may simply want to introduce themselves or train new hires, but from a legal perspective, the risks boards assume during an informal meeting outweigh any benefits. An investigation becomes "formal" when the agency requests a deposition. Denying a request for an informal meeting outside of that structure is perfectly reasonable.

In the event of a sweep, boards should also take a hands-off approach to direct communications with the SEC. It's vital to have a knowledgeable third party articulate board sentiment to the SEC and to ensure directors don't miscommunicate, the panelists agree. In most cases, independent counsel should speak on behalf of the board. Likewise, any statements from the board, document requests or otherwise, should be carefully crafted and reviewed by counsel before they're sent to the SEC.

That doesn't mean directors should be in the dark about what's going on at the regulator; it's standard for counsel and other third parties, such as accountants, administrators and trade organizations, to keep the board informed on proposed rules, the potential of a sweep and exam results. But throughout that process, directors should utilize counsel to serve as a liaison between the board and the regulator.

On rare occasions, a board member might be asked to interact with the SEC through a broad industry lobbying group or in an effort to provide comment on an issue or to take issue with a proposed rule. This is one of the few circumstances where meeting directly with the regulator might be appropriate, the panel agrees. Even in these cases, however, directors should proceed with caution and carefully review any statements they intend to put forward.

The panel's conclusions:

1. Don't accept informal meeting requests
2. Let counsel speak on behalf of the board
3. Carefully review statements before sending to the regulator

ACTION STEP 2

Understand the distinction between strong oversight and micromanagement

Recent proposals from the SEC would expand the role of fund boards and have added to the complexity of the issues they might need to consider. The December 2015 derivatives rule proposal, which would require fund directors to approve portfolio limitations, risk management and other measures, is one in a long list of rules that could significantly change the director role. Some worry the regulator has inundated fund boards with extra work and relegated their job to one in which directors serve as the eyes and ears of the SEC. It's not the board's job to act as a quasi-compliance officer, the panel agrees, but the distinction between oversight and increased involvement in fundamental business practices has gotten fuzzy.

> **"Because our workload has expanded, we rely on our committee members to do a deep dive on an issue and report back about what they found. If boards keep getting more regulations to monitor compliance, I foresee fund boards having a greater reliance on committees."**
>
> *— Sam Freedman*

Boards shouldn't be afraid to ask penetrating, topic-specific questions – in many cases, it's the only way to spot red flags. But there is a risk of getting too involved, the panel agrees. An over-involved board runs the risk of altering its relationship with the service provider from a system of checks and balances to one where the provider waits for board direction to make day-to-day decisions. That's a dangerous dynamic, the panel agrees, and it's up to the board chair to reel in over-involved directors. Two examples of directors overstepping their bounds include:

- A director with an accounting background who joins frequent calls between internal accounting staff and an outside accountant and sidetracks or derails the conversation
- A director who gets directly involved with the investment process – in the normal course, urging a manager to sell specific securities or to buy others.

Some investment questions are appropriate, however. If a fund is billed as conservative but is concentrated in a seemingly risky investment, it's reasonable (and pertinent) for a director to ask management to explain that decision. But directors should never try to steer the day-to-day investment process.

How a board defines the difference between oversight and micromanagement will vary depending on the fund. All boards should have clear processes and procedures that lay out how to identify and correct problems in a way that doesn't disadvantage shareholders. Each new proposal from the SEC should come with a thorough review from the board, the service provider and counsel, followed by a conversation about best practices. The onus is on the service provider to create

a task force to assess the impact of a new rule, but it's the board's responsibility to work with management to devise new policies if a rule is adopted as proposed.

There is a clear difference between asking difficult questions and micromanagement, the panel agrees. As regulations continue to expand, this distinction will become even more important. ■

The panel's conclusions:

1. Ask topic-specific questions, but don't try to steer the investment process
2. If you see a board member moving in a direction that's inappropriate, pull them aside
3. Follow each new proposal from the SEC with a conversation about best practices

ACTION STEP 3

Hire the right people and make time to educate them

In a March 2015 speech at the Mutual Fund Directors Forum Annual Policy Conference, SEC chair Mary Jo White urged boards to consider the "emerging problems of tomorrow" and to become knowledgeable on a number of topics: cyber security, derivatives, liquidity, trading, pricing and fund distribution, among others. Directors need to consider whether their boards have the necessary skills to examine these themes, White said, and "whether to hire subject matter experts as consultants to the board."

> **"In today's environment, boards are going to be confronted with a variety of evolving issues about which they will need to be conversant to be able to exercise their oversight responsibilities."**
>
> *— Alan Goldberg*

White's comments, and similar statements from SEC staff, have raised some unanswered questions among board members. Are boards meant to be subject matter experts on every hot-button issue? Should potential directors be judged by their understanding of these issues over the breadth of business experience they bring to the boardroom? Is the SEC asking too much of directors and setting boards up to fail?

Every year, boards are confronted with specific issues on which they must be conversant. It's critical that directors are well versed on new terms and concepts and how they might impact the fund, the panel agrees. In dealing with these concerns, education is the most important tool in any board's arsenal. Directors can be kept up to date on SEC developments by adding educational sessions on compliance and regulation to quarterly meetings. Some fund boards have scheduled special sessions focusing on specific topics, allowing them to home in on the consequences of a proposal or event. Others require directors to attend annual education programs. The idea isn't to turn directors into specialists, the panel stresses, but to empower them to ask better questions of the professionals they oversee.

While the panel dismisses the idea that boards should serve as experts on every industry trend, it recognizes the importance of having a knowledgeable roster of directors. Designated directors should take a deep dive into complicated issues. One panelist says having director "experts" in derivatives and valuation has allowed his board to ask the types of penetrating questions the SEC increasingly expects of a fund board. Another panelist finds it useful to assign one board member a hot-button topic to discuss with management and report back to the board at regularly scheduled meetings.

The makeup of the board is changing, the panel notes. This isn't a bad thing; historically, potential directors had a better chance of getting initially hired if they were friends of the adviser. As long-dictated by the regulator, a board needs truly independent directors with a breadth of skills and experience. An independent board is able to ask probing questions of its adviser and ensure the people it hires are capable of doing their job.

> **"We want a collaboration on the board, of skills, experience and talents. That diversity helps us represent the interest of the shareholder. And I think it's what the SEC wants to see as well."**
>
> *— Jim Atkinson*

When hiring new board members, there are several ways to identify worthy candidates. Some fund boards hire an outside consultant, while others get referrals from independent counsel, service providers such as accountants and administrators, other board members or industry organizations like the Mutual Fund Directors Forum. Most use a combination of methods. Competition is stiff: more than 100 independent directors joined a new fund board in 2015, which is about 5% of the industry's independent board population. As such, governance and nominating committees have been busier than ever, often coordinating searches for multiple candidates at the same time.

As regulations grow more complex, the panel predicts, directors with knowledge of hot-button issues like cyber security, liquidity and derivatives might have an edge over other applicants.

Different boards want different things from directors, but the most commonly sought skills include:

1. Industry experience
2. Product experience (e.g., fixed income)
3. Regulatory and compliance expertise
4. Ability to lead a committee or board
5. Good chemistry with the existing board members

ACTION STEP 4

Restructure fund board committees to accommodate the amount of time spent on regulatory matters

As the director role becomes more complex, the risk of overburdening directors can be abated by changing the workflow of committees. While the entire board should spend ample time discussing regulatory developments, the main focus must be on providing good service for the shareholder. Boards that have lost that focus should restructure committees to account for longer discussions on regulatory issues or add new committees to make up for the increased workload. In the panel's view, this is a good way to meet expanding obligations without drawing board meetings out into week-long affairs.

Boards should review the capabilities of current committees and identify holes in regulatory, compliance and risk management areas. Then, they can allocate work to a new committee composed of old and new directors. Topics for committee review vary depending on each board and can fall under headings for liquidity, compliance and derivatives, among others. To avoid burnout, each committee should have roughly the same amount of work and should proceed by taking a deep dive into an issue and bringing back its findings to the full board. One panelist suggests that topics can rotate between the board agenda and the committee agenda in order to keep the full board up to date on their status.

The panel's conclusions:

1. Identify gaps in regulatory and compliance capabilities
2. Restructure or add committees to account for increased workload
3. Rotate topics between the committee and board agendas

SECTION 2:
Must-Know Issues

Must-Know Issues

In light of the 2008 financial crisis, the SEC is taking greater steps to ensure that a mutual fund board has a true and important governing role and to hold directors accountable for performing as such.

As the regulator places more duties on independent directors via new rules and guidance, fund boards need to remain hyper-vigilant about protecting the fund from litigation and enforcement. Every quarter, there are new items to consider. The panel suggests best practices for approaching this changing regulatory landscape.

MUST-KNOW ISSUE 1

Fees and Gates

In 2014, the SEC announced amendments to rule 2a-7, which will require certain money market funds to abandon their fixed net asset value (NAV) of $1 per share in favor of a floating NAV. The rule, with which funds are expected to comply by Oct. 14, 2016, also allows some funds to impose liquidity fees or temporarily suspend redemptions during a volatile period. Under the changes, board directors are now responsible for overseeing these "fees and gates."

For many boards, these are uncharted waters. An important first step, the panel agrees, is facilitating a discussion with the adviser. After the money fund rule change was announced, funds saw a huge shift in money market assets. The floating NAV rule excludes government and retail money-market funds (which can still offer a stable NAV), so to avoid fees and gates, many companies converted (or are planning to convert) their money market products to government funds. Directors on funds that haven't converted may be wondering what the game plan is and if they should be worried about the future of their fund. Now more than ever, boards need to ask probing questions of the service provider. Discussion around the money fund lineup should include, among others, the following questions:

- What is the benefit of converting all money funds to government funds – or not?
- What is the composition of the shareholder book, and how important is a stable NAV to those shareholders?
- What is the yield differential?
- What are the circumstances that would cause management to recommend fees and gates?

Directors should carefully review the SEC's direction on the intricacies of the new rule and revise policies and procedures as needed. For instance, the amendment notes that money market funds are required to "promptly and publicly disclose" when the fund's level of weekly liquid assets falls below the 10% threshold and the imposition and removal of fees or gates, among other intricacies. Boards of money funds are permitted to impose a liquidity fee of up to 2% on redemptions and/or impose a gate for up to 10 business days if the fund's weekly liquid assets fall below 30% of total assets. If the fund's weekly liquid assets fall below 10% of its total assets, the funds must impose a liquidity fee of 1% of the amount redeemed unless the board determines it would not be in the best interests of the fund to do so.

Before instituting fees and gates, the panel agrees, boards must answer two main questions:

- What is the harm you're seeking to prevent?
- How is instituting a fee or gate in the best interest of the shareholder?

The panel's conclusions:

1. Carefully review the new proposal
2. Facilitate discussion with the adviser
3. Ask probing questions

MUST-KNOW ISSUE 2

Fair Valuation

There's no question that fair valuation is a board's responsibility. As outlined by the securities laws, fund directors are responsible for determining the fair value of securities for which market quotations are not readily available and for periodically reviewing the methodologies used to value those securities.

> **Out of 103 mutual fund groups surveyed, 73% of survey participants indicated that they had revised their valuation policies and procedures over the last year.**
>
> *— Deloitte Fair Valuation Pricing Survey, Thirteenth Edition*

Individual board members typically are not involved in the day-to-day valuation process, but they do have a powerful role in overseeing that process. For most boards, that means:

- Approving fund valuation policies and procedures
- Monitoring implementation
- Periodically reviewing fair-valuation decisions and changes made by pricing personnel or valuation committees.

This is not a responsibility the board should take lightly, as evidenced by the enforcement proceedings against Morgan Keegan in which eight former directors were charged with failing to satisfy their pricing responsibilities in funds that were concentrated in securities backed by subprime mortgages. Valuation also played a role in the SEC's 2009 case against Reserve Management Co., which charged that the company failed to provide accurate information regarding the value of a money fund's securities.

The panel's conclusions:

1. Know your role in the valuation process
2. Rewrite valuation policies to clearly spell out valuation protocol
3. Think of policies as "living" documents that can be easily amended

The panel urges fund boards to learn a lesson from these failures. Boards that function effectively have transparent, written policies that clearly spell out valuation protocols. The best-run boards also have policies for "exception reporting," or procedures for an adviser to request a review on an issue that arises and isn't covered by the regular policies. There can be periodic changes to valuation procedures instigated by the introduction of a new security or the market moving from a particular area. Boards should fashion policies as "living" documents that can easily be amended, the panel agrees.

In recent years, policies have become more formal. Many boards have approved a major rewrite of their valuation procedures and have taken a more proactive role in ensuring those procedures are doing what they claim to be doing. Some boards have added meetings to spend more time going over valuation proceedings and conferring with third-party valuation service providers to gain an understanding of their processes and controls; others have prioritized the function by creating a valuation committee and designating experts to handle the issue. Boards need to take an even more involved approach to fair valuation with alternative products. Directors should take the time to understand and discuss fair-valuation methodologies of esoteric products and approve any changes that need to be made.

MUST-KNOW ISSUE 3

Derivatives and Liquidity

In September 2015, the SEC proposed sweeping changes to liquidity management. If instituted, the implications for directors are significant. Under the rule, boards of open-end funds would be required to establish a liquidity risk management program, maintain a three-day liquid asset minimum and categorize portfolio assets into one of six buckets, depending on how fast they can be converted to cash. In December, the regulator proposed a similar rule for derivatives, limiting funds' use of the security and requiring them to put risk management procedures into place, among other measures.

> "It's not our job to ensure that funds avoid risk. In fact, that's something many investors might want. It's our job to ensure the product is being managed consistent with the risk disclosed."
>
> *— Anita Nagler*

To some, the proposals muddy the understanding of the board's liquidity and derivatives duties. Historically, the questions directors posed to service providers were straightforward: what's the liquidity; what's the settlement rate; are there problems with settlement. These changes, some panelists worry, could be putting boards in the middle of a judgement call they're not capable of making.

The case against Third Avenue, and the sweep of high-yield bond funds it prompted, has served as a cautionary tale for many boards. As a proactive measure, some boards are meeting more frequently with service providers to discuss valuation and liquidity policies. The goals are twofold: to prevent errors from happening and to create protocols to fix problems if they do. A huge part of this, the panel agrees, are well designed, streamlined reports from service providers. Reviews should be designed so readers aren't drowning in data. Make every point relevant and focused so the board can key in on the issue and not waste time trying to find it. One panelist suggests highlighting what's new, what's different and what's changed at the top.

As in fair-valuation determinations, boards need clear protocols for on-the-spot decisions or "exception reporting" for when the adviser can't wait until a board meeting to get approval for a decision. One suggestion the panel put forth is holding impromptu conference calls that brief directors on management's proposal for tackling an issue and that give the board a chance to understand what's afoot.

Still, the panel agrees, these proposals should be handled like any other, with:

1. A clear set of procedures
2. Monitoring to identify and mitigate pain points
3. Ongoing questions to ensure management is doing its job

> **"My worry is that replacing the judgement of the portfolio manager with a set of rules is going to disadvantage the shareholder. A set of rules is never as good as a guy on the firing line making decisions regarding what is best for the portfolio."**
>
> *— Sam Freedman*

Failing to have a highly functioning compliance operation is where companies usually get into regulatory trouble, and derivatives and liquidity issues are no different, the panelists explain. Still, board members should not be risk-averse – it's not the role of the board to ensure that funds avoid risk. Any type of investing involves some measure of risk, and different investors seek different amounts. The board's role, then, is to ensure the product's management is consistent with the risk disclosed.

MUST-KNOW ISSUE 4

Distribution Payments

There are few things as hotly contested in the modern fund environment as distribution fees. In recent years, 12b-1 and other sub-accounting fees have provoked numerous headlines, and headaches, for the fund industry.

> **"Mutual fund fees have a direct impact on investor returns. For example, because investors may evaluate funds based on the specific levels of 12b-1, management, and other fees, potential mischaracterization of fees may lead them to invest in funds that they would not otherwise have selected."**
>
> *— IM Guidance Update: Mutual Fund Distribution and Sub-Accounting Fees, January 2016*

In January 2016, the SEC offered new guidance on distribution fees in the form of a 15-page "guidance update." The document followed the regulator's "distribution-in-guise" initiative, which resulted in $40 million fines for two firms found using fund assets to pay distribution costs. The guidance came with a clear message for directors: mutual fund boards, regardless of whether they have a 12b-1 plan, must evaluate whether sub-accounting fees are being used to pay distribution.

Some directors are dismayed by this news. After all, the guidance came with scant discussion and no proposal to speak of. Likewise, boards can't force intermediaries to provide information about what money given to them pays for specifically. (As of this writing, the regulator is considering a number of changes to the guidance, including requiring transfer agents to disclose information about fees, business conflicts and other information.) Still, the panel agrees, it's critical that fund boards read the SEC's guidance on distribution and draft appropriate policies as soon as possible.

Many boards already have policies monitoring distribution. One panelist's board holds an annual review of distribution payments, which looks at the data for the past three fiscal years and compares how it has changed on a fund-by-fund basis, to monitor the level of fees.

Over the life of the fund, contracts have been written and rewritten. The panel believes boards must ask management to confirm that they're still working and ask service providers to explain what is new, what is different and what has changed. Another panelist suggests asking advisers to amend contracts with the distributor to require delivery of reports, but admits that the likelihood of this is slim. All boards need to inquire with management whether someone is performing due diligence in this area, the panel agrees.

In its new guidance, the SEC lays out a framework for distribution payment evaluation. Relevant information to collect from the service provider and intermediaries includes:

- Information about the specific services provided under the mutual fund's sub-accounting agreements
- The amounts being paid

- If the adviser and other service providers are recommending any changes to the fee structure or if any of the services provided have materially changed
- Whether any of the services could have direct or indirect distribution benefits
- How the adviser and other service providers ensure that the fees are reasonable
- How the board evaluates the quality of services being delivered to beneficial owners (to the extent it is able to do so).

The panel adds that there are two distribution questions boards must ask of themselves:

- How much is the fund willing to pay for its sub-TA/12b-1?
- How does that affect the shareholder?

The panel's conclusions:

1. Read the SEC's guidance and draft appropriate policies
2. Collect appropriate information from the service provider
3. Hold an annual review of distribution payments

MUST-KNOW ISSUE 5

Cyber Security

Most cyber-security actions are a management issue, the panel agrees, but the board is still responsible for ensuring there are processes and procedures in place to protect the shareholder from cyber attacks.

> "Hearing the approaches others are taking can be very helpful. Together, the industry is learning how to handle these situations — what's working and what hasn't."
>
> — *Jim Atkinson*

Cyber-security issues involve service providers broadly, and overseeing those entities can be a challenge. A good place to start, panelists suggest, is with getting attestations from vendors confirming they have protected their online operations and wealth of information. Certain board committees, such as the audit committee, should also look for deficiencies on the program side that could leave things open to cyber-security issues.

Good cyber-security measures require a commitment by the board to stay educated. Directors need to be diligent in understanding the insurance options they and their corporate entity have and how that insurance may be used to protect against liability and preserve assets in the context of its indemnification. One panelist suggests sending a designated number of directors to industry events with informational sessions on cyber security and asking them to bring back what they've learned. Similarly, pricing vendors are spending more time meeting with the board than ever before to go over big-picture cyber-security issues, according to the panelist.

There's a lot going on, and boards need to be on their toes, the panel agrees. Boards should have an ongoing dialogue with service providers to determine that everything that could possibly be done in this area is, indeed, getting done. Cyber security, while a relatively new issue, affects every fund board in the world. If boards are having trouble understanding how to address these concerns, the panel suggests directors look to resources outside the industry for guidance.

Particularly in light of the global financial crisis and Madoff debacle, the SEC is seeking to clamp down on industrywide malfeasance. In such a heightened regulatory environment, board directors need to be hyper-aware of what their role is and how to properly perform it. The panel convened by *BoardIQ* suggests fours steps for directors to fulfill their roles responsibly and five key issues on which directors must be conversant.

The panel's conclusions:

1. Ensure vendors are protected
2. Attend industry events about cybersecurity
3. Know your insurance options
4. Look to resources outside the industry for guidance

CONCLUSION

Nine actionable ideas to make your board more effective

The Four Action Steps:

1. Understand what's expected of the regulatory relationship
2. Understand the distinction between strong oversight and micromanagement
3. Hire the right people and make time to educate them
4. Restructure fund board committees to accommodate the amount of time spent on regulatory matters

The Five Must-Know Issues:

1. Fees and Gates
2. Fair Valuation
3. Derivatives and Liquidity
4. Distribution Payments
5. Cyber Security

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