April 25, 2022

Ms. Vanessa Countryman, Secretary
US Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

**RE: File No. S7-03-22**

Dear Ms. Countryman:

We appreciate the opportunity to comment on the Securities and Exchange Commission's (the SEC or the "Commission") Request for Comment on the proposed rule, *Private Fund Advisers; Documentation of Registered Investment Adviser Compliance Reviews* (the "Proposed Rule" or "Proposal").

We commend the SEC for its efforts to enhance investor protection in the private markets through recommendations that enhance information flow to private market investors and put in place safeguards to ensure that fees and expenses, among other things, are understood by and appropriate to be borne by private fund investors. While the Proposal includes many potential regulatory changes, our observations and recommendations included in the appendix are based on our experiences complying with the Commission's audit, disclosure, and independence rules, areas more closely aligned with PwC's expertise.

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We appreciate the opportunity to express our views. Please contact Thomas Barbieri at thomas.barbieri@pwc.com or Christopher Brabham at christopher.brabham@pwc.com if we can provide the SEC staff or the Commission with any additional information or assistance regarding our observations and recommendations.

Sincerely,

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

**APPENDIX**

I. Scope of private funds included in the Proposed Rule

We recommend that the Commission provide additional clarification of which entities are in scope of the Proposed Rule, particularly with regard to the mandatory audit requirement. Defining the scope of the mandatory audit requirement as pooled investment vehicles that are subject to Rule 206(4)-2 under the Investment Advisers Act of 1940 (the "Custody Rule") would be well understood. However, if other entities are intended to be included in the scope of the Proposed Rule, we recommend specific guidance on how to identify those entities.

II. Mandatory private fund adviser audits

The Proposed Rule would require that private fund advisers that are registered or required to be registered obtain annual audits of the private funds they manage. Further, while such audits could be conducted under generally accepted auditing standards of the United States ("US GAAS"), the Proposed Rule would require the audits to be performed by an independent public accountant that meets the standards of independence in 17 CFR 210.2-01(b) and (c) (in Rule 2-01(b) and (c) of Regulation S-X) ("SEC Independence Rules"). We anticipate that mandating the application of the SEC Independence Rules will be disruptive to certain audit relationships with private funds (and result in a decrease in the number of audit firms eligible to serve as an independent audit firm) because of the broader applicability of the SEC's rules due to its definitions of affiliates and business relationships, among other provisions. We question whether this consequence is justified by any incremental benefit to private fund investors over audits performed under the AICPA's independence standards.

As the SEC pointed out in the proposing release, many private funds advised by registered investment advisors (RIAs) already undergo financial statement audits to meet various objectives, including to satisfy the Custody Rule. We recommend that the SEC clarify whether audits that are performed to satisfy the Custody Rule would also satisfy the requirements of the Proposed Rule. We recommend that the Commission continue to allow RIAs to satisfy Custody Rule requirements for private fund clients either through (1) audits performed under SEC Independence Rules, or (2) surprise examination verifications under SEC Independence Rules if audits are conducted under AICPA independence standards. By continuing to allow for flexibility in how to satisfy the Custody Rule, and by including an option for an audit under AICPA independence standards for the Proposed Rule's mandatory audit requirement, we believe that the Commission's objectives for investor protection would be achieved.

Further, we note that under the Custody Rule, RIAs can treat assets held in special purpose vehicles as assets of a pooled investment vehicle client and therefore satisfy the Custody Rule by including those assets in the scope of the pooled investment vehicle's financial statement audit or surprise examination. We recommend the Commission provide clarification regarding whether such audited financial statements would also satisfy the Proposed Rule.

III. Quarterly statements

*Presentation of information in quarterly statements*

The Proposal requires RIAs to consolidate certain reporting entities (for example, master-feeder structures or parallel funds) in quarterly statements, as long as the consolidated information is more meaningful to investors and not misleading. We believe that this could cause inconsistencies with the presentation in the audited financial statements prepared under US GAAP. To prevent potential user confusion and limit compliance complexity, we recommend requiring the quarterly report to be presented on a basis consistent with US GAAP.

*Performance information*

The Proposal requires certain performance metrics to be disclosed based on the liquidity of the private fund, including internal rate of return (IRR) and multiple of invested capital for illiquid funds and total return for liquid funds. The Proposal also requires performance metrics to be calculated since inception for both liquid and illiquid funds. We note that the definition of an illiquid fund in the Proposal is consistent with the definition of certain limited life companies that would be required to present IRR under US GAAP. However, the Proposal suggests that a "hybrid fund" that does not contain all six attributes of an illiquid fund could exercise some level of judgment based on its facts and circumstances and present IRR instead of total return. We believe that a "hybrid fund" would likely be required to present total return under US GAAP. We believe adding additional factors or judgment beyond that permitted under US GAAP could result in a potential inconsistency between the performance metric presented in the financial highlights in the audited financial statements under US GAAP and the performance metric that RIAs would disclose to investors in the quarterly statements under the Proposed Rule. As a result, we recommend requiring a presentation that is consistent with US GAAP.

We also note that some RIAs that advise certain mature funds may not have maintained required records to calculate the requisite performance metrics on an inception-to-date basis, particularly those records that are outside of the record-keeping retention requirements of the Investment Advisers Act of 1940. We recommend that the Commission address how such metrics should be determined if certain information is unavailable without undue cost or effort.