

# Prospectus Verification Services

Broker Village audits mutual fund prospectuses and related documents. Often, errors exist in numeric tables and/or suitability text is inconsistent with the math. Problems compound if actual or perceived conflicts-of-interest exist.

We can help firms fix problems if they exist...or attest that they don't. For each fund, we can determine if:

- Conflicts of interest exist at the advisor, B/D, or fund firm levels;
- Share class sales limits are suitable, particularly for typical trade sequences;
- Fee and performance tables are accurate and consistent with SAI text; and if
- Textual rationales are consistent with the math.

## Auditing Team

The same math firm, CPA firm, and securities lawyer that reviewed FINRA's [Fund Analyzer](#) (MFA) will do all work. We guarantee that your prospectus figures precisely match FINRA's. Audits can be re-verified annually.

Broker Village (BV) will focus on conflicts-of-interest and suitable share class sales limits. [Capossela, Cohen](#) will focus on accuracy of prospectus tables. Pat Foster's legal work will concern the veracity and consistency of disclosure.

BV created the math for several regulatory calculators. Capossela audited much of the math. They're a 30-person, high-end CPA firm. As an independent member of the [BDO Siedman](#) Alliance, Capossela has access to BDO's resources. BDO International is the world's 5th largest CPA firm, with 590 offices in 99 countries. Ms. Foster issued the legal opinion on the MFA-related math. An industry veteran, her specialty is mutual fund compliance.

## Proposal Specifics

We suggest audits for eight to ten funds, due to differences in portfolio composition. For *each fund* we will:

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| <ul style="list-style-type: none"> <li>• Determine proper minimum and maximum sales limit for each share, by account type</li> <li>• Determine if conflicts exist for advisor, B/D, and fund firm; if so, trace underlying causes</li> <li>• Determine if causal relationships exist between advisor pay and share class sales volumes</li> <li>• Provide basic corroborating EXCEL file</li> <li>• Issue Attestation Letter that complies with the CFA Institute's research report rules</li> </ul> | } | <p>Broker Village<br/>Math Work</p>    |
| <ul style="list-style-type: none"> <li>• Verify accuracy of fee and return tables, testing for proper use of CDSCs, B/A flips, loads, etc.</li> <li>• Verify that figures in the various tables are consistent with the actual prospectus text</li> <li>• Issue AICPA-compliant Attestation Letter attesting to the accuracy of the prospectus tables</li> <li>• Submit a report listing the procedures performed and results of those procedures</li> </ul>   | } | <p>Capossela<br/>CPA Work</p>          |
| <ul style="list-style-type: none"> <li>• Verify if the rationale for share class choice, offered by the prospectus, agrees with the math</li> <li>• Suggest additional text for Tax Considerations and Share Class sections of each prospectus</li> <li>• Issue Legal Opinion concerning the findings and whether math and disclosure are consistent</li> </ul>  | } | <p>Pat Foster, Esq.<br/>Legal Work</p> |

## Per Fund Pricing

The proper number of funds to audit is firm-dependent. There are two pricing levels *per fund*:

- a) **Math and CPA:** This pricing is per fund and is very affordable.
- b) **Math, CPA, Legal:** This pricing is slightly more expensive, but still very affordable.

## Support for the Need to Ensure Accuracy

**a) Recent press and lawsuits concern prospectus accuracy.** Since 2008 the press has covered the issue. Then class actions were filed against MFS and Lord Abbett. For both, alleged harm is \$400+ million. Then came the recent decision by the U.S. Court of Appeals (*SEC vs. Tambone*). It found that fund executives have a duty to ensure the accuracy and completeness of fund prospectuses. If not, they can face personal liability.

[MFS Lawsuit](#) Reuters, July 28, 2008

[Lord Abbett Lawsuit](#) PR Newswire, September 18, 2008

[SEC vs. Tambone Lawsuit](#) SEC Website, December 5, 2008

[Unscrambling the Alphabet of Fund Fees](#) NY Times, January 20, 2008

[It's Called Class A, But is it Best for You?](#) NY Times, April 6, 2008

[That Prospectus May Need a Fine Tooth Comb](#) NY Times, July 13, 2008

[Lawsuits Shed Light on Share Class Suitability](#) Financial Times, November 3, 2008

[Share Class Suits Raise Questions About Prospectus Accuracy](#) BoardIQ.com, December 2, 2008

**b) Excerpt of article about SEC's claim against Columbia Funds executives (*SEC vs. Tambone*):**

[www.sec.gov/litigation/litreleases/lr18590.htm](http://www.sec.gov/litigation/litreleases/lr18590.htm)

“The [SEC] alleges that the defendants had a duty to act at all times in the best interests of the Columbia mutual funds and to provide full and fair disclosure of all material facts to investors. [D]espite this duty, the defendants never disclosed to fund shareholders or to the independent trustees of the funds that particular investors were being allowed to make short-term trades in the funds, or that Columbia...had a conflict of interest.”

**c) Excerpt of legal article about the executive's duty to ensure the accuracy of prospectuses:**

[www.complianceweek.com/blog/carton/2008/12/05/the-sec-weighs-in-on-the-first-circuits-decision-in-tambone-case/](http://www.complianceweek.com/blog/carton/2008/12/05/the-sec-weighs-in-on-the-first-circuits-decision-in-tambone-case/)

“The First Circuit explained that Tambone and Hussey, as executives of Columbia Distributor, had a legal duty to confirm the accuracy and completeness of the prospectuses and other fund material that they distributed.”

**d) Excerpts of 12/18/08 ignites.com article – which was guest-written by a lawyer – about an executive's duty to ensure the accuracy of prospectuses:**

[www.brokervillage.com/ignitesAboutTambone2008.pdf](http://www.brokervillage.com/ignitesAboutTambone2008.pdf)

“The First Circuit ruled that the executives had a duty to confirm the accuracy and completeness of the prospectuses used to sell the funds. Now, employees of a distributor who “use” an issuer's prospectus to sell shares can be personally liable if they either knew or should have known the prospectus contained misrepresentations. *Industry professionals would be well-advised to conduct a comprehensive review of their prospectuses and annual reports.*”

**e) Excerpts of 12/2/08 BoardIQ.com article about a Board's duty to ensure the accuracy of prospectuses:**

<http://www.brokervillage.com/BIQArticleAboutProspectuses12-08.pdf>

[B]oards should...ensure that investors receive accurate and meaningful disclosure in fund prospectuses. For chief compliance officers, observers suggest that annual compliance reviews include testing of calculations used in prospectuses. Howard Suskin, a partner with Jenner Block, says fund directors can, as a best business practice, confirm that the calculations in fund prospectuses are correct by hiring an independent firm to audit the prospectus. Gene Gohlke, an associate director [at] the SEC...notes that “[A]s part of the board's review and approval of the compliance programs...it would seem prudent [to] pay attention to what controls exist regarding preparation of, review and vetting of disclosure materials, including fee tables, performance tables and whatever type of tabular [and] textual presentations are in disclosure documents.”