In the Matter of

DELOITTE & TOUCHE LLP, ALPS FUND SERVICES, INC., and ANDREW C. BOYNTON,

Respondents.

ORDER INSTITUTING PUBLIC
ADMINISTRATIVE AND
CEASE-AND-DESIST PROCEEDINGS
PURSUANT TO SECTIONS 4C AND 21C
OF THE SECURITIES EXCHANGE ACT
OF 1934, SECTION 9(f) OF THE
INVESTMENT COMPANY ACT OF 1940,
AND RULE 102(e) OF THE
COMMISSION’S RULES OF PRACTICE,
MAKING FINDINGS, AND IMPOSING
REMEDIAL SANCTIONS AND A
CEASE-AND-DESIST ORDER

I.

The Securities and Exchange Commission ("Commission") deems it appropriate that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 4C\(^1\) and 21C of the Securities Exchange Act of 1934 ("Exchange Act"), Section 9(f) of the Investment Company Act of 1940 ("Investment Company Act") and Rule 102(e)(1)(ii) of the Commission’s Rules of Practice,\(^2\) against Deloitte & Touche LLP ("D&T"), and pursuant to

\(^1\) Section 4C provides, in relevant part, that:

The Commission may censure any person, or deny, temporarily or permanently, to any person the privilege of appearing or practicing before the Commission in any way, if that person is found . . . (2) . . . to have engaged in . . . improper professional conduct . . .

\(^2\) Rule 102(e)(1)(ii) provides, in pertinent part, that:
Section 9(f) of the Investment Company Act as to ALPS Fund Services, Inc. ("ALPS") and Andrew C. Boynton ("Boynton") (collectively, "Respondents").

II.

In anticipation of the institution of these proceedings, Respondents have submitted Offers of Settlement ("Offers"), which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over them and the subject matter of these proceedings, which are admitted, Respondents consent to the entry of this Order Instituting Public Administrative and Cease-and-Desist Proceedings Pursuant to Sections 4C and 21C of the Securities Exchange Act of 1934, Section 9(f) of the Investment Company Act of 1940, and Rule 102(e) of the Commission’s Rules of Practice, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order ("Order"), as set forth below.

III.

On the basis of this Order and Respondents’ Offers, the Commission finds\(^3\) that:

A. Overview

This matter arises from an independence-impairing business relationship between D&T’s affiliate, Deloitte Consulting LLP ("DC"), and Andrew C. Boynton, while Boynton was serving on the boards of trustees and the audit committees of three D&T SEC-registrant audit clients. At all relevant times, both D&T and DC were subsidiaries of Deloitte LLP ("Deloitte"), and “associated entities” for purposes of Rule 2-01 of Regulation S-X.\(^4\) The DC/Boynton Relationship involved DC’s acquiring from Boynton and others, and then collaborating with Boynton in implementing, a proprietary brainstorming business methodology to serve both internal and external firm clients. The relationship spanned approximately five years—from 2006 until as late as 2011—during the entirety of which Boynton served as a member of the board of trustees and of the audit committee of Fund A, Fund B and Fund C, each of which was, during the entire period, both a D&T audit client and a registered investment company. As detailed below, Respondent D&T engaged in improper professional conduct, violated Rule 2-02(b) of Regulation S-X, and caused certain reporting violations by the Funds; Respondent Boynton was a cause of the same reporting violations; and Respondent ALPS caused certain violations by the Funds of Investment Company Act Rule 38a-1.

\(^3\) The findings herein are made pursuant to Respondents’ Offers of Settlement and are not binding on any other person or entity in this or any other proceeding.

\(^4\) See Rule 2-01(f)(2) of Regulation S-X, defining “accounting firm” to include associated entities of the firm. D&T and its associated entities, including DC, are hereinafter referred to as the “firm.”
B. Respondents

Deloitte & Touche LLP is organized as a limited liability partnership under the laws of the State of Delaware that is headquartered in New York, New York, and is a subsidiary of Deloitte. Since 2003, D&T has been registered, pursuant to the Sarbanes Oxley Act of 2002, with the Public Company Accounting Oversight Board (“PCAOB”), to prepare and issue audit reports of issuers and other SEC registrants. D&T served as the auditor to each of Funds A, B and C (defined below) until March of 2012.

ALPS Fund Services, Inc. is a Colorado corporation headquartered in Denver, Colorado. At all relevant times, it has provided various services to the investment management industry, including fund administrative services to registered investment companies. At all relevant times, ALPS served as the administrator to each of Funds A, B and C, and provided ALPS employees to serve as each Fund’s Chief Compliance Officer, among other positions.

Andrew C. Boynton, age 59 and a resident of Concord, Massachusetts, served on the board of trustees and the audit committee of Fund A and Fund B beginning in March 2005, and served in the same capacities for Fund C beginning in March 2006, continuing in all the foregoing roles until September 2012. At all relevant times, Boynton worked in academia and business consulting.

C. Relevant Registrants

Fund A, Fund B and Fund C are closed-end management investment companies registered with the Commission pursuant to the Investment Company Act. Launched in 2004, 2005 and 2006, respectively, each Fund is a Delaware corporation that has, at all relevant times, been headquartered in Denver, Colorado. Also at all relevant times, each Fund’s common shares have been listed on the NYSE MKT LLC.

D. Other Relevant Entity

Deloitte is organized as a limited liability partnership under the laws of the State of Delaware. It is the U.S. member firm of Deloitte Touche Tohmatsu Limited, a U.K. private company limited by guarantee. Client services are performed primarily by Deloitte’s subsidiaries — D&T, DC, Deloitte Tax LLP, and Deloitte Financial Advisory Services LLP — which provide audit and enterprise risk services, consulting, tax, and financial advisory services, respectively.

E. FACTS

1. Establishment and Operation of the Relationship

On May 15, 2006, at a time when Boynton was serving on the boards and audit committees of three D&T registered investment company audit clients (Fund A, Fund B and Fund C), D&T’s affiliate entered into the business relationship with Boynton that is the subject of this proceeding. The relationship entailed DC’s purchase from Boynton and his business partners of intellectual property rights to a brainstorming business methodology, as well as the simultaneous agreement, integral to the purchase, for Boynton to serve as a consultant to DC for a three-year period to train
firm personnel in the use of the methodology and assist the firm in serving both internal and external clients using that methodology. DC engaged Boynton infrequently following the conclusion of the initial three-year term of the consulting agreement. The last client facing engagement Boynton participated in was in February 2011. During its course, the DC/Boynton Relationship yielded remuneration to Boynton exceeding 10% of both his total earnings and his net worth.

Although Deloitte’s policies required an independence consultation prior to entering into a new business relationship with a consultant, an independence consultation was not performed before DC entered into the business relationship with Boynton in 2006. Nor did Deloitte discover that the required initial independence consultation had not been performed until nearly five years after the DC/Boynton relationship had been established. Nor did the firm perform the initial independence consultation’s steps at any subsequent point during the relationship, whether in connection with work on individual projects, or otherwise.

In the course of the DC/Boynton Relationship, Boynton provided both internally and externally focused consulting services. Within the firm, Boynton participated in trainings and workshops to educate firm personnel — including, on at least one occasion, D&T personnel — on the use and implementation of the methodology. The firm encouraged its partners to find ways to use the methodology in serving external clients, including audit clients, and they in turn did so. In addition, partners at other member firms of Deloitte Touche Tohmatsu also used the methodology with clients on occasion. With respect to externally focused consulting services, Boynton directly participated with DC personnel in several external client workshops utilizing the methodology. DC paid over $300,000 in consulting fees to Boynton for such external client work.

2. **D&T Claimed Independence From Fund A, Fund B and Fund C**

For the duration of the DC/Boynton Relationship, Boynton simultaneously served on the boards of all three Funds while D&T served as the Funds’ outside-auditor, thereby impairing D&T’s independence. Despite the DC/Boynton Relationship coinciding with either (a) periods covered by its audits, or (b) periods during which the work on those audits was performed — or both — D&T represented it was independent in its audit reports for all three Funds for fiscal years 2007 through 2011. With D&T’s knowledge and consent, those audit reports, and information about the “independent” auditors, respectively, were, in turn, included in their clients’ annual reports on Form N-CSR and proxy statements, both of which were filed with the Commission throughout the relevant period. In addition, D&T expressly confirmed to Funds A, B and C at the end of each affected fiscal year that it was “independent” and therefore able to serve as each client’s external auditor. These written confirmations — required by PCAOB Rule 3526 — did not, at any time during the relevant period, disclose the DC/Boynton Relationship.

3. **The Funds’ Inadequate Policies and Procedures**

For its part, ALPS contractually agreed to assist the Funds in discharging their responsibilities under Rule 38a-1, which requires each Fund, with board approval, to “adopt and

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5 D&T’s fees from its audits of Funds A, B and C over these five fiscal years totaled $497,438.
implement written policies and procedures reasonably designed to prevent violation of the Federal Securities Laws by the Fund[s].” See Rule 38a-1 of the Investment Company Act. D&T’s audit engagement letters with each of the Funds also provided that ALPS, serving as “management” to each Fund, was responsible for “assist[ing] D&T in maintaining independence.” As part of their policies and procedures, each Fund’s Audit Committee Charter required its audit committee to, among other things, recommend the selection, retention, or termination of the auditors and to evaluate the independence of the auditors in accordance with the Commission’s rules and regulations. None of the Funds, however, adopted sufficient additional written policies and procedures reasonably designed to prevent auditor independence violations, whether aimed at preventing or detecting independence-impairing business relationships or otherwise. ALPS did, during the relevant period, circulate trustee and officer (“T&O”) questionnaires that, in part, were designed to identify conflicts of interest that could bear on auditor independence (though primarily directed at determining whether the trustees were “interested persons” as that term is defined under Section 2(a)(19) of the Investment Company Act). In particular, throughout the relevant period, these questionnaires asked each T&O to identify his “principal occupation(s) and other positions.” Beginning in 2009, they also asked each T&O to identify any “direct or material indirect business relationship” he had with the Funds’ auditor, D&T. Despite their significance to determining whether the auditor was independent, however, business relationships with the auditor’s affiliates were neither expressly covered by these questionnaires nor by any other policy or procedure. Furthermore, the Funds did not have sufficient written policies and procedures reasonably designed to prevent violations of the broader auditor independence requirements beyond prohibited business relationships between the auditor and T&Os. Finally, the Funds did not provide sufficient training to assist the Funds’ board members in the discharge of their responsibilities as to auditor independence.

4. The Funds’ Independence Inquiries

For his part, as a member of the three Funds’ boards and audit committees, Boynton was required to complete the annual T&O questionnaires described above. During each of the relevant years, Boynton’s responses to the question calling for identification of his “principal occupation(s) and other positions” did not identify the DC/Boynton Relationship. Nor, relying on his personal understanding that DC was a separate legal entity from D&T, did Boynton identify the DC/Boynton Relationship in his responses to the question, appearing in the T&O questionnaires from 2009 onward, whether he had any “direct or material indirect business relationship” with D&T. Nor, on the same ground, did Boynton’s participation in any of the annual audit committee votes to retain D&T as each Fund’s auditor occasion any disclosure by Boynton of his business relationship with DC. Boynton never inquired, however, whether DC’s and D&T’s relationship to one another carried auditor independence or other conflict-of-interest implications, despite, among other things, his having worked directly with D&T personnel (not assigned to the Funds’ audits) on brainstorming methodology projects.

5. Deloitte Discovers the Independence Impairing Relationship

On November 11, 2011, as a result of monitoring procedures Deloitte implemented as part of its efforts to enhance its independence quality controls, Deloitte’s national independence office identified a payment to Boynton and discovered that independence clearance of Boynton had not been obtained, and notified the DC director responsible for the payment. This step led to an
inquiry which led to the identification of the fact that Boynton was both a trustee of the Funds and an individual with whom DC had a business relationship. Boynton and D&T contemporaneously alerted ALPS and/or Fund counsel, and, at the conclusion of its inquiry, D&T reported its results first to the Funds’ Audit Committee, and then, on March 2, 2012, to the Commission’s Office of the Chief Accountant. Two weeks later, D&T’s audit relationship with the Funds ended.

F. LEGAL ANALYSIS

1. Independence Principles Governing the DC/Boynton Relationship

The basic elements of an auditor independence violation in the business-relationship context are (1) an independence-impairing relationship; (2) existing during all or part of the period covered by the audit, or the period of the audit work, or both; followed by (3) issuance of an audit report asserting the auditor’s independence from the client. See Rule 2-01(c)(3) of Regulation S-X. Business relationships with persons associated with the audit client in a decision-making capacity, such as audit client directors, officers and substantial stockholders are embraced by this prohibition. See Rule 2-01(c)(3). Section 6.02.02.e of the Commission’s Codification of Financial Reporting Policies (“Codification”) (available at 7 Fed. Sec. L. Rep. (CCH) ¶ 73,272) provides, among other things, that:

In addition to the relationships specifically prohibited by Rule 2-01, joint business ventures, limited partnership agreements, investments in supplier or customer companies, leasing interests, (except for immaterial landlord-tenant relationships) and sales by the accountant of items other than professional services are examples of other connections which are also included within this classification.

The DC/Boynton Relationship falls within Regulation S-X’s prohibition. Boynton served as a D&T audit-client board member while simultaneously serving as a subcontractor and paid consultant to DC in a direct business relationship. Although Rule 2-01(c)(3) provides an exception for “consumer in the ordinary course of business” relationships, that exception has no application to consulting relationships that, like the instant one, included Boynton being a subcontractor in the provision of services to third parties.  

6 Rule 2-01(c)(3) provides:

An accountant is not independent if, at any point during the audit and professional engagement period, the accounting firm or any covered person in the firm has any direct or material indirect business relationship with an audit client, or with persons associated with the audit client in a decision-making capacity, such as an audit client’s officers, directors, or substantial stockholders. The relationships described in this paragraph do not include a relationship in which the accounting firm or covered person in the firm provides professional services to an audit client or is a consumer in the ordinary course of business.

2. Violation of Rule 2-02(b) of Regulation S-X

Each time D&T signed an audit report for Fund A, Fund B and Fund C, where either the period covered by the audit or the period of the audit work (or both) overlapped with the DC/Boynton Relationship, D&T directly violated Rule 2-02(b) of Regulation S-X. See Rule 2-02(b) (requiring accountant’s report to “state whether the audit was made in accordance with generally accepted auditing standards” [“GAAS”] which, in turn, require auditors to maintain independence — both in fact and appearance — from their audit clients.\(^8\)). Thus, the D&T year-end audit reports for Funds A, B and C’s 2007 through 2011 fiscal years incorrectly stated that they were performed in accordance with GAAS.

3. Improper Professional Conduct

D&T’s failure to meet the requirements of Rule 2-01 of Regulation S-X described above also constitutes improper professional conduct under Exchange Act § 4C and Rule 102(e)(1)(ii) of the Commission’s Rules of Practice, which provides, in pertinent part, that the Commission may “censure a person or deny, temporarily or permanently, the privilege of appearing or practicing before it... to any person who is found... to have engaged in... improper professional conduct.” Such conduct can be established by, *inter alia*, negligence in the form of either “a single instance of highly unreasonable conduct … in circumstances [warranting] heightened scrutiny”\(^9\) or of “repeated instances of unreasonable conduct...” See Rule 102(e)(1)(iv)(B)(1) and (2).

4. The Funds’ Annual Report and Proxy Violations

Each time non-independent audit reports were filed with or incorporated in Fund A’s, Fund B’s and Fund C’s annual reports, or other information concerning the “independent” auditors was provided in the proxy statements, the Funds violated federal securities statutes and rules requiring those Commission filings to disclose certain information concerning the independent auditors and audits. See Investment Company Act §§ 30(a) and 20(a) and Rule 20a-1 thereunder.\(^10\) D&T and

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\(^8\) Securities Act Release No. 33-8422 (May 24, 2004) states that reference to GAAS are to mean PCAOB standards. Pursuant to PCAOB Professional Standards Rule 3200T, the PCAOB adopted certain preexisting generally accepted auditing standards, as described in AICPA SAS No. 95. Those standards include AU 161 and 220. PCAOB Rule 3600T also explicitly requires compliance with the independence standards described in AICPA’s Code of Professional Conduct Rule 101 as in existence on April 15, 2003, to the extent not superseded or amended by the PCAOB.

\(^9\) Auditor independence is always an area warranting heightened scrutiny. See Adopting Release for Rule 102(e) [Rel. Nos. 33-7593, 34-40567, 1998 SEC LEXIS 2256 (Oct. 19, 1998)] (“Because of the importance of an accountant’s independence to the integrity of the financial reporting system, the Commission has concluded that circumstances that raise questions about an accountant’s independence always merit heightened scrutiny.”)

\(^10\) Investment Company Act §30(a) requires investment companies to file annual reports in conformity with Section 13(a) of the Exchange Act, which in turn requires the annual reports to contain financial statements audited by “independent public accountants.” Investment Company Act § 20(a) and Rule 20a-1 thereunder require investment companies’ proxy statements to satisfy Exchange Act Regulation 14A and corresponding Rules.
Boynton each caused these reporting violations because each should have known the DC/Boynton Relationship would cause all three Funds to violate the provisions listed above.

5. The Funds’ Lack of Adequate Compliance Procedures

As noted above, ALPS contractually agreed to assist the Funds in discharging their responsibilities under Rule 38a-1. To that end, ALPS furnished a Chief Compliance officer to each of the Funds who was, consistent with Rule 38a-1, responsible for administering the Funds’ “written policies and procedures reasonably designed to prevent violation of the Federal Securities Laws by the Fund[.]” See Investment Company Act Rule 38a-1. Moreover, ALPS drafted, for approval and implementation by each of the three Funds’ boards, Rule 38a-1 compliance policies and procedures. As drafted by ALPS and approved by the Funds’ boards, the Funds’ written policies and procedures governing auditor independence and, more generally, the selection, retention, and engagement of the auditor were, at all relevant times, inadequate. The Funds therefore each violated Rule 38a-1 of the Investment Company Act and ALPS should have known its conduct would cause this violation.

IV. Findings

Based on the foregoing, the Commission finds that Respondent D&T (a) engaged in improper professional conduct pursuant to Exchange Act Section 4C(a)(2) and Rule 102(e)(1)(ii) of the Commission’s Rules of Practice; (b) violated Rule 2-02(b) of Regulation S-X; and (c) caused Fund A, Fund B and Fund C to violate Sections 20(a) and 30(a) of the Investment Company Act, and Rule 20a-1 thereunder.

Based on the foregoing, the Commission further finds that Respondent ALPS caused Fund A, Fund B and Fund C to violate Rule 38a-1 of the Investment Company Act, and that Respondent Boynton caused Fund A, Fund B and Fund C to violate Investment Company Act Sections 20(a) and 30(a), and Rule 20a-1 thereunder.

V.

In determining to accept Respondent D&T’s Offer, the Commission considered the steps taken by the firm, both before and after the firm’s detection of the independence impairing relationship with Boynton, to enhance its independence quality control system. Since the conduct discussed in this Order, the firm has continued to improve its independence policies and procedures regarding business relationships. The firm has, among other things, established a database of audit client board members, officers and significant shareholders for use in independence-clearance processes throughout the firm; enhanced independence training throughout the firm; and increased the number and frequency of its procedures for prevention and

which, among other things, require disclosures concerning the registrant’s “Independent Public Accountants” (Item 9); and closed-end investment companies like Funds A, B and C also must disclose their communications with auditors concerning independence (Item 22(b)(16)(i), incorporating Reg S-K, Item 407(d)(3).
detection of independence-impairing business relationships as well as its monitoring to ensure the firm’s independence controls are working effectively.

The Commission has also considered, in determining to accept Respondent ALPS’s Offer, the remedial steps undertaken by ALPS in circumstances where ALPS furnishes a Chief Compliance Officer to a fund client. Since the conduct discussed in this Order, ALPS has, among other things, commenced working with such clients’ boards and their counsel to enhance auditor independence policies and procedures. It has also commenced working with such clients’ counsel to implement training concerning, *inter alia*, the business-relationship independence prohibitions; to enhance such clients’ T&O questionnaires to ensure that business relationships with audit firm affiliates are inquired into; and has commenced working with counsel to such clients or their boards to enhance training of board members and officers concerning the discharge of their responsibilities as to auditor independence.

VI.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondents’ Offers.

Accordingly, it is hereby ORDERED, effective immediately, that:

A. Respondent D&T be, and hereby is, censured.

B. Pursuant to Exchange Act Section 21C, Respondent D&T shall cease and desist from committing or causing any violations and any future violations of Rule 2-02 of Regulation S-X.

C. Pursuant to Investment Company Act Section 9(f), Respondents D&T and Boynton shall cease and desist from causing any violations and any future violations of Sections 20(a) and 30(a) of the Investment Company Act, and Rule 20a-1 thereunder, and Respondent ALPS shall cease and desist from causing any violations and any future violations of Rule 38a-1 of the Investment Company Act.

D. Respondent D&T shall, within ten (10) days of the entry of this Order, pay (i) disgorgement of $497,438, plus prejudgment interest of $116,478, for a total of $613,916, and (ii) a civil money penalty in the amount of $500,000, to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment of disgorgement is not made, additional interest shall accrue pursuant to SEC Rule of Practice 600. If payment of a civil penalty is not timely made, additional interest shall accrue pursuant to 31 U.S.C. § 3717.

E. Respondent ALPS shall, within ten (10) days of the entry of this Order, pay a civil money penalty in the amount of $45,000, to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If payment is not timely made, additional interest shall accrue pursuant to 31 U.S.C. § 3717.
F. Respondent Boynton shall, within ten (10) days of the entry of this Order, pay (i) disgorgement of $30,000, plus prejudgment interest of $5,328.71, for a total of $35,328.71, and (ii) a civil money penalty in the amount of $25,000, to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment of disgorgement is not made, additional interest shall accrue pursuant to SEC Rule of Practice 600. If payment of a civil penalty is not timely made, additional interest shall accrue pursuant to 31 U.S.C. § 3717.

G. All payments required by this Order must be made in one of the following ways:

(1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

(2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm; or

(3) Respondent may pay by certified check, bank cashier’s check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Respondent as a Respondent in these proceedings, and the file number of these proceedings. A copy of the cover letter and check or money order, or documentation of whatever other form of payment is used, must be simultaneously sent to Stephen L. Cohen, Associate Director, Division of Enforcement, Securities and Exchange Commission, 100 F St., N.E., Washington, DC 20549.

By the Commission.

Brent J. Fields
Secretary