



# Annual Investment Industry Seminar

October 28, 2025

[www.kmco.com](http://www.kmco.com)

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# GIPS Standards Update

**Thomas A. Peters**  
**Director, Investment Industry**  
**Group**

**Kreischer**  
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# Agenda

1. GIPS Helpdesk - Select Questions
2. New Tools
3. New Guidance
4. What's Next?



# GIPS Help Desk Questions – 2025

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- July – Composite construction
- August – Base currency conversion



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# GIPS Help Desk Questions – 2025

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July – Composite construction: whether a composite that lost all its member portfolios must be revived or replaced when a new fund is launched.

## Question:

A new fund is launching this year and is expected to be included in a composite that originally began in October 2007 but was terminated in August 2014 when all accounts closed. Over 10 years have passed.

Are we required to revive the old composite, or can we create a new one?



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# GIPS Help Desk Questions – 2025

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July – Composite construction: whether a composite that lost all its member portfolios must be revived or replaced when a new fund is launched.

## Answer:

You must revise the old composite.

*According to Provision 4.A.5, “If the composite loses all its member portfolios, the composite track record must end. If portfolios are later added to the composite, the composite track record must restart.”*



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# GIPS Help Desk Questions – 2025

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July – Composite construction: whether a composite that lost all its member portfolios must be revived or replaced when a new fund is launched.

## Additional Points

- The inception and creation dates in the GIPS Composite Report should reflect that dates of the original composite.
- Firms may either present only the most recent 10 yr history (incl break) or all history. GIPS Handbook provides examples of how to present when a break in track record.
- No additional disclosures required. However, for transparency, the firm may wish to note that the composite included performance from Oct 2007 through Aug 2014 and had no portfolio from Sept 2014 through Aug 2025.



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# GIPS Help Desk Questions - 2025

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July – Composite construction: whether a composite that lost all its member portfolios must be revived or replaced when a new fund is launched.

## Planning Points

- Be mindful with Significant Cash Flow policies, especially when the composite only has a few accounts.
- Consider having a firm or firm personnel invest in an account in strategy to maintain record.



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# GIPS Help Desk Questions – 2025

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August – GIPS composites and currency Conversion

- Firm has four single-account GIPS composites denominated in GBP, each with an inception date of 1 Dec 2024. The PMs are considering converting the base currency of underlying funds from GBP to USD.

## Question 1:

Is it acceptable to convert the historical track records of the underlying funds from GBP to USD starting from 1 Dec 2024 using the spot FX rates we use for the valuation of those funds?



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# GIPS Help Desk Questions - 2025

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August – GIPS composites and currency Conversion

## Answer 1:

The GIPS Standards do not require or recommend a particular method for converting portfolio performance from one currency to another. Two possible options for converting returns into a different currency are as follows:

- Agg Meth – convert the underlying data (MV and CFs) using FX date of each MV and CF, then calc composite returns based on converted data
- Wtd Ave Meth – first calc port returns, then convert the portfolio returns into the selected currency, and calc the wtd ave comp return using the converted returns
- See Provision 4.A.12 in GIPS Handbook



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# GIPS Help Desk Questions - 2025

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August – GIPS composites and currency Conversion

## Question 2:

Can we retrospectively create for new USD-denominated composites using the converted historical track records of the underlying funds?



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# GIPS Help Desk Questions - 2025

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August – GIPS composites and currency Conversion

## **Answer 2:**

The firm may create four new USD-denominated composites. Please refer to the discussion under Provision 4.A.12 as mentioned earlier, along with Provision 4.C.9, which outlines the disclosure requirements related to the reporting currency.



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# New Tools - 2025

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- Other tools
  - Introduction to the GIPS Standards for Asset Owners (for Boards and Decision Makers)
  - Updated disclosure checklist
  - Update requirements outside the provisions for firms



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# New Guidance – 2025

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- GIPS Standards for verifiers when verifying fiduciary managers
- GS on verifier independence when verifying fiduciary managers
- GIPS Standards for verifiers when verifying asset owners
  
- OCIO Guidance Statement



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# Guidance Statements for Verifiers

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- When GIPS 2020 was released, it included a section for verifiers who were verifying firms and there is a follow-up GS for verifier independence when verifying firms.
- The new guidance issued in 2025 helps round out the standards for verifiers who are verifying asset owners or FMPs.
- FMPs are a special type of UK pension plan that falls under The Investment Consultancy and Fiduciary Management Market Investigation Order 2019.
- Asset Owners are those organizations with the investment assets, like pension funds. They have some unique requirements. GIPS 2020 added a section for asset owners and the verification independence for asset owners GS helps in this regard.



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# OCIO GS – Definitions

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- GS applies to Outsourced Chief Investment Officer (OCIO) portfolios.
- OCIO portfolio is defined as a pool of assets of an asset owner for which the firm provides BOTH strategic investment advice and investment management services.
- An OCIO portfolio is managed by a firm according to the asset owner's investment mandate, which is typically composed of multiple asset classes.
- The OCIO portfolio usually consists of underlying portfolios, each representing one of the strategies used to achieve the OCIO portfolio's investment mandate.



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# OCIO GS – Definitions

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- An OCIO acts as a fiduciary.
- OCIOs help develop the strategic asset allocation and investment policy statement for the OCIO portfolio.
- The client, or oversight body, typically approves the strategic asset allocation and investment policy statement.
- Once approved, the OCIO is then responsible for implementing the investment mandate.



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# OCIO GS – When Does It NOT Apply?

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- Portfolios for which the firm does NOT provide BOTH strategic investment advice and investment management services. In these cases – the firm would follow regular GIPS.
- Portfolios that do not include all asset classes of an OCIO portfolio's investment mandate. If a firm only manages a portion of an OCIO portfolio, follow regular GIPS (GIPS Standards for Firms).
- Retail client portfolios are excluded as such portfolios are managed differently than OCIO portfolios for asset owners.
  - Asset owners typically have much longer time horizons than retail clients.
  - OCIO portfolios typically have more complex illiquid investments.
  - And OCIO portfolios are typically much larger than retail portfolios.



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# OCIO GS – When Does It NOT Apply?

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- Does not apply for Fiduciary Management Providers (FMPs) in the UK.
- Defined under “The Investment Consultancy and Fiduciary Management Market Investigation Order 2019.”
- When presenting to Pension Scheme Trustee clients in the UK.
- There is a separate GIPS chapter for FMPs.
- If there are other non-FMP related OCIO portfolio accounts, these would fall under the OCIO standards.



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# OCIO GS – Apply Example

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- Endowment client
- Two separate pools of assets – one short-term and one long-term.
- Each pool has its own investment mandate.
- Firm is hired to provide both strategic investment advice and manage the short-term pool. Not hired to work on long term pool.
- Does the OCIO GS Apply?
- YES – because the firm is providing both strategic investment advice and investment management services to the short-term pool.



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# OCIO GS – Apply Example

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- Firm offers four multi-asset allocation models for E&F clients.
- Firm works with each client to determine which model is the right fit.
- Firm provides both strategic investment advice and investment management services.
- Does the OCIO GS Apply?
- YES – because the firm is providing both strategic investment advice and investment management services. Provides strategic investment advice by recommending which multi-asset allocation model is appropriate.



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# OCIO GS – Does NOT Apply Example

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- Firm hired to manage the equity portfolio of a foundation's OCIO portfolio.
- Does the OCIO GS Apply?
- NO – because the firm does not provide strategic investment advice, nor does the firm manage the ENTIRE OCIO portfolio.



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# OCIO GS – Does NOT Apply Example

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- Firm has institutional clients for which it manages multi-asset-class portfolios.
- Includes implementing the client-provided strategic asset allocation.
- Includes selecting managers.
- Firm is not responsible for oversight of the client's strategic asset allocation or recommending changes to the clients IPS.
- Does the OCIO GS apply?
- NO – only providing investment management services and not strategic investment advice.



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# OCIO GS – Why Needed?

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- The industry has 3 main groups:
  - Clients (asset owners)
  - Consultants (who help clients find OCIOs)
  - And OCIOS
- Consultants complain that reports, even GIPS compliant reports, are not comparable. They often request OCIOs run ad hoc reports to get an apples-to-apples comparison for their searches.
- OCIOs also complain about having GIPS reports that aren't enough, and they need to run a bunch of ad hoc reports.



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# OCIO GS – Why Needed?

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- Comparability, consistency, transparency for...
- Inputs, fees treatment, return calcs, and disclosures.
- Firms were not in sync and there were other reporting problems, such as:
  - Rep accts
  - Single account composites
  - Asset class performance
  - Composites that were overly broad.



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# OCIO GS – Why Needed?

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- Existing GIPS for Firms Standards – not a good fit for many reasons, including:
  - Composite structure
  - Legacy assets
  - Fee treatment
  - Disclosures



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# OCIO GS – Required Composite Structure

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- To provide comparability, have required OCIO composites.
- OCIO working group thought this was one of the most important things GIPS could require to improve comparability.



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# OCIO GS – Required Composite Structure

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- Total Return Objective Composites – consists of OCIO portfolios managed with a primary focus on capital appreciation with no liability matching. Examples include endowments and foundations.
  - Composites based on amounts of growth vs risk-mitigating assets
  - Total Return Aggressive to
  - Total Return Conservative



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# OCIO GS – Required Composite Structure

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- Liability-Focused Composites – consist of OCIO portfolios managed with an objective to meet a liability stream, which may be contractually prescribed. Examples include corporate pension funds and insurance portfolios.
  - Composites based on amounts of liability-hedging assets vs growth assets.
  - Liability-Focused Aggressive to
  - Liability-Focused Conservative



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# OCIO GS – Required Composite Structure

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Recommended (not required) classifications can be summarized as follows:

Liability-hedging (LF Composites) / Risk-mitigating (Total Ret Composites)

- Investment Grade FI
- Cash

Either category:

- Hedge funds (need to determine how used)

Growth:

- Everything Else



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# OCIO GS – Required Composite Structure

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- All OCIO portfolios must be included in a required OCIO composite.
- OCIO portfolios assigned to required OCIO composites based on strategic asset allocation and not based on tactical asset allocation.
- OCIO portfolios that include a glide path will change strategic asset allocations over time, which will typically result in changes to composite assignment.
- When an OCIO portfolios changes required composites, the historical performance will remain with the old composite and the performance after the change in strategic asset allocation will be included in the new OCIO composite.
- Firms can have other OCIO composites they may want in ADDITION to the required composites.



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# OCIO GS – Key Points

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- Returns need to be presented gross and net.
- Use of proprietary products (where the OCIO gets paid) need to be disclosed.
- This was done so that firms that used all external managers could be properly compared to a firm that used all proprietary products (as well as firms in between).



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# OCIO GS – Key Points

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- Legacy assets – inherited when an OCIO obtains a client with an existing portfolio.
- OCIO may wish to sell, but items may be illiquid (think PE funds).
- Firms must determine how the existence of legacy assets in portfolios impacts the discretion of the portfolio.
- 3 options:
  - Exclude from composites portfolios with material legacy assets.
  - Include in composites portfolios with material legacy assets.
  - Include only the portion of the portfolio that excludes legacy assets when the rest is consistent with the investment mandate.



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# OCIO GS – Key Points

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- Benchmarks – required to present the total return for a benchmark that reflects the composite’s investment mandate, objective, or strategy.
- If the firm determines there is no appropriate benchmark, none is required. Not expected to be the case for OCIO portfolios.
- Common OCIO benchmarks:
  - Blended
  - Portfolio-weighted custom benchmark



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# OCIO GS – Key Points

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- Blended benchmarks – created by combining two or more indexes, such as 60% of an equity index and 40% of a fixed index, rebalanced monthly



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# OCIO GS – Key Points

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- Portfolio-weighted custom benchmarks (PWCBs) – created using the benchmarks of the individual portfolios in the composite.
- PWCBs – often meaningful for OCIO composites.
- GIPS Standards require several additional disclosures for PWCBs.
- Please note that a GIPS Q&A was recently issued (June 2024) simplifying disclosures for PWCBs in response to discussions in the OCIO WG. Concern is that disclosure under Benchmark GS would be really long, making it not meaningful. The Q&A provides some relief.



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# OCIO GS – When?

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- Effective date December 31, 2025
- GIPS Reports for Required OCIO Composites that include performance for period ending on or after December 31, 2025 must be prepared in accordance with the Guidance Statement for OCIO Portfolios.



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# OCIO GS – Portfolio-Weighted Custom Benchmark Q&A

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- Provision 4.C.34 states that when a portfolio-weighted custom benchmark is used, a firm must disclose the components that constitute the portfolio-weighted custom benchmark, including the weights that each component represents, as of the most recent annual period end.
- Firms must also disclose that the components that constitute the portfolio-weighted custom benchmark, including the weights that each component represents, are available for prior periods upon request.
- Because there are so many different underlying benchmarks in some composites, if each underlying benchmark and its respective weight were presented, the disclosure would be pages long.
- The Q&A said it's okay to instead disclose the weights of the asset classes that comprise the portfolio-weighted custom benchmark.



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# OCIO GS – Portfolio-Weighted Custom Benchmark Q&A

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- Disclosure about components can be aggregated into larger groupings.
- Components could be defined as:
  - The individual benchmarks within the portfolio-weighted custom benchmark.
  - The regions or asset classes of the individual benchmarks within the portfolio-weighted custom benchmark.
  - Criteria important to the management of portfolios in the composite, such as duration groupings for LDI composites, within the portfolio-weighted custom benchmark.



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# OCIO GS – Portfolio-Weighted Custom Benchmark Q&A Sample Disclosure

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- The Total Return Objective Moderate Custom Benchmark is calculated using the benchmarks of the portfolios in the composite. The benchmark is rebalanced monthly based on the beginning values of portfolios included in the composite. Portfolio benchmarks are unique to each portfolio but generally consist of multiple benchmarks using public market indexes. As of 31 December 20XX, the custom benchmark includes:
  - Domestic public equity (32.5%)
  - Nondomestic public equity (19.2%)
  - Real estate (5.8%)
  - Bank loans (4.9%)
  - High yield (9.5%)
  - Core fixed income (19.1%)
  - Treasuries (9.0%)
- Information about the individual benchmarks within each asset class is available upon request. Information about benchmark components for prior periods is also available upon request.



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# What's Next – Tools & Resources

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- Updates to document comparing GIPS to SEC standards to incorporate recent FAQs issued by the SEC.
- Probably more tools
- After tax?



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# Contact the Presenter

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**Thomas A. Peters**  
**Director, Investment Industry Group**  
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Tom has a wide range of experience providing audit, Global Investment Performance Standards (GIPS), operational due diligence, and compliance and consulting services to firms in the investment industry. In addition, he:

- Helps clients maintain GIPS compliance while presenting their performance in the best light possible. We offer a complimentary GIPS initial assessment to help clients understand their current status.
- Assists entrepreneurs with starting investment firms and investment funds
- Performs operational due diligence
- Assists with hiring personnel
- Volunteers for several CFA Institute GIPS Committees and is currently Chair person of the OCIO Working Group and a member of Verifier Subcommittee.

As a leader in Kreischer Miller's Investment Industry Group, Tom works with a variety of investment managers, broker-dealers, investment funds, and institutional investors.

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# Audit Preparation & the Auditor / Administrator Relationship

**Craig B. Evans**  
Director, Audit & Accounting,  
Investment Industry Group,  
Kreischer Miller

**David Goldstein**  
Director, Fund Administration,  
STP Investment Services



Investment  
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# Agenda

1. Auditor vs. Administrator Roles & Services
2. Key Duties & Management Responsibilities in Monthly, Quarterly, & Annual Processes
3. Collaboration & Communication
4. Audit Support & Division of Responsibilities for Audit Documentation



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# Contact the Presenters

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# Part One Current Tax Update

**Brian Emerson**  
Director, Tax Strategies

**Kreischer  
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# Agenda

1. Pass-Through Entity Tax and State and Local Taxes
2. University Endowment Excise Tax
3. Green Energy Projects
4. Active Business Losses
5. Miscellaneous Itemized Deductions
6. Trump Accounts
7. One Big Beautiful Bill Act Updates



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# Pass-Through Entity Taxes & SALT Deductions

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- What is the pass-through entity election?
  - Opportunity to pay state level tax at entity level versus personal level.
  - Enacted by states as workaround from personal income tax state and local tax deduction cap imposed with Tax Cuts and Jobs Act (TCJA) in 2017.
- Allows pass-through entities to pay the respective state income tax at the entity level and deduct the tax paid on the federal tax return.



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# Pass-Through Entity Taxes & SALT Deductions

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- House of Representatives proposed bill was set to limit this.
- Final One Big Beautiful Bill Act (OBBA) leaves the deduction unchanged and continues to allow taxpayers to make a PTET election and take the federal deduction through 2029.



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# Pass-Through Entity Taxes & SALT Deductions

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- What states offer the PTET election?
  - 36 states offer the election
  - Maine to offer the election in 2026
  - Pennsylvania and Washington DC has proposed tax bills



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# Pass-Through Entity Taxes & SALT Deductions

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2025 Tax year		
2025 Federal Taxable Income	\$	1,000,000
Income Sourced to MN (30%)	\$	300,000
<b>2025 Minnesota PTET Tax (9.85%)</b>	<b>\$</b>	<b>29,550</b>

2026 Tax Year		
2026 Federal Taxable Income	\$	1,000,000
Less: PTET Paid during 2025	\$	(29,550)
<b>Adjusted 2026 Federal Taxable Income</b>	<b>\$</b>	<b>970,450</b>
<b>Effective Net Tax Savings</b>	<b>\$</b>	<b>10,934</b>



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# Pass-Through Entity Taxes & SALT Deductions

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## State Income and Tax Deduction

- Tax Cuts and Jobs Act
  - Limited the deduction of state and local income tax that an individual taxpayer could deduct when itemizing their deduction on Schedule A.
  - Capped at \$10,000 for all SALT and real estate tax for all taxpayers.
  - In place from 2018 through 2024.
- One Big Beautiful Bill Act
  - Increased cap from a maximum deduction of \$10,000 to \$40,000 .
  - Series of phaseouts based on adjusted gross income.
  - Taxpayers completely phased out are allowed a \$10,000 deduction.



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# Pass-Through Entity Taxes & SALT Deductions

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## State Income and Tax Deduction Phaseout

Filing Status	Modified Adjusted Gross Income Threshold	Maximum Deduction
Married Filing Joint	\$500,000	\$40,000
Married Filing Separate	\$250,000	\$20,000
Single	\$500,000	\$40,000

- For every dollar over the AGI threshold, the deduction is reduced by 30 cents up to \$10,000.



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# University Endowment Excise Tax

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- Beginning January 1, 2026, excise tax on net investment income of private colleges and university endowments is expanded to a tiered structure.
- Previously had a fixed tax rate of 1.4%.
- Tiered structure begins at 1.4% with a maximum rate of 8%.
- Schools with less than 3,000 students will not be subject to the tax.



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# University Endowment Excise Tax

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Endowment per student is at least	But does not exceed	Tax Rate
\$500,000	\$750,000	1.4%
\$750,000.01	\$2,000,000	4%
\$2,000,000.01	N/A	8%



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# Green Energy

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- OBBA accelerates the phase-out and termination of many clean energy tax credits enacted under Inflation Reduction Act (IRA).
- Projects must be utilized by domestic entities.
- The repeal of the Inflation Reduction Act is estimated to raise approximately \$500 billion for the governments budget.



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# Green Energy

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Green Energy Projects	Phase-out dates
Wind and Solar projects that begin constructions by July 4, 2026	No placed-in-service deadline
Wind and Solar projects that begin construction after July 4, 2026	Must be placed-in-service before December 31, 2027
EV Charger/Alternative Fuel Station	Projects must be placed-in-service by June 30, 2026
Clean Commercial Vehicles	Vehicles must be acquired by September 30, 2025
Section 179D Tax Deduction	Projects must start construction by June 30, 2026



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# Green Energy

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- Termination after December 31, 2025
- Energy Efficient Home Improvement Credit
  - Personal Credit up to \$1,200
  - \$2,000 for heat pumps and biomass
- Residential Solar Credit
  - Eligible for 30% credit
  - Fully installed and commission before year-end



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# Active Business Losses

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- Governed under Section 461(I)
  - Excess business loss is the amount by which the total deductions from a trade or business are more than the taxpayer's gross income plus threshold amount
  - For 2025, the threshold is \$313,000 (\$626,000 for MFJ)
  - Losses more than threshold are not deductible in the current year and carried forward as a net operating loss
- Enacted originally as part of TCJA and was set to expire in 2028.
- OBBB Act makes the Section 461(I)(1) limitation on excess business losses permanent



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# Itemized Deductions

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- Permanently repeals the Pease limitation and introduces a new limit.
- High-income taxpayers will be subject to limitation (for 2025 \$761,600 for MFJ).
- Will result in itemized deductions being limited to a maximum federal benefit of 35%.



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# Trump Accounts

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- New tax-favored savings accounts for children under the age of 18 when the account is established
  - Structured as a form of individual retirement account (IRA), but not a Roth IRA
  - Eligible investments are limited to mutual funds or exchange traded funds (ETF) which track U.S. Stock Index
  - First contribution can be made after July 4, 2026
  - Contributions limited to \$5,000 per year, adjusted for inflation after 2027, until the beneficiary turns 18
- New Section 128 allows employer contributions to Trump accounts
  - Will not be included in the employee's income up to \$2,500 and business can expense



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# Trump Accounts (cont.)

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- Distributions for qualified expenses, permitted after age 18, will be subject to capital gain tax in excess of contribution basis.
- Other distributions subject to income tax plus an additional 10% if the beneficiary is under 30.
- \$410 million appropriated to provide a one-time tax credit for \$1,000 for opening a Trump account for children born after December 31, 2024, and before January 1, 2029, who are U.S. citizens at birth.



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# One Big Beautiful Bill Act Updates

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- Miscellaneous Itemized Deductions
  - TCJA's suspension of 2% AGI miscellaneous itemized deductions made permanent, was set to expire in 2026.
  - Unreimbursed employee expenses, investment fees, tax prep fees, hobby expenses, etc.
  - Exception for unreimbursed employee expenses for eligible educators.
- Carried Interest
  - Final legislation did not change tax treatment.
  - Taxes allocation of capital gains at favorable long-term capital gains rates (subject to a three-year holding period).



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# One Big Beautiful Bill Act Updates (cont.)

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- Section 899
  - New section of tax code considered “revenge tax”.
  - Proposed from the House version of the bill but did not make final OBBB bill.
  - Would have increased tax rates of residents of “discriminatory foreign countries” by 5% per year, up to a maximum of 20% above the statutory rate.
- Bonus Depreciation
  - OBBB made 100% bonus depreciation permanent.
  - Property must have been placed in service after January 19, 2025.
  - Encourages investment by improving cash flow and reducing tax liability.
  - Special election to elect 40 % instead of 100% bonus in 2025.



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# One Big Beautiful Bill Act Updates (cont.)

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- Section 174 – R&D Expenses
  - Taxpayer can immediately deduct domestic research and experimental expenditures incurred after December 31, 2024.
  - Foreign R&E must still be capitalized and amortized over 15 years.
  - Small businesses with average gross receipts of \$31 million or less will generally be permitted to apply this change retroactively to tax years beginning after December 31, 2021, by filing an amended return.
  - All other taxpayers that incurred R&E expenditures between December 31, 2021 and January 1, 2025 will be permitted to elect to accelerate the remaining deductions for those expenditures over a one- or two-year period, beginning after December 31, 2024, via a change in accounting method.



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# Contact the Presenter

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**Brian Emerson**  
**Director, Tax Strategies**  
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Brian is a Director in Kreischer Miller's Tax Strategies group. He provides a variety of tax services and strategies, including tax compliance and planning, to privately held companies in the real estate, investment, manufacturing, distribution, and service industries. He has also assisted companies with business transactions, including mergers, acquisitions, and transition planning.

Brian is also a member of Kreischer Miller's Investment Industry Group, where he assists in developing and leading internal and external trainings related to the investment industry.



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# Registered Investment Adviser Compliance & Industry Trends

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**Presented by:**

Chenery Compliance Group

Speaker: Michael T. Mann, Director

## Michael Mann – Director, Compliance Officer

Michael Mann is a Compliance Officer of Chenery Compliance Group, offering strategic guidance that supports private fund advisers, wealth managers, and institutional advisers and funds to operate effectively within an ever-evolving regulatory landscape. His consultation spans the full lifecycle of advisory operations, from formation and registration to ongoing support to complex compliance and regulatory matters. Before joining Chenery, Mr. Mann was a Compliance & Risk Management Associate at CenterSquare Investment Management, an independent employee-owned real asset manager focused on listed real estate, private real estate equity and private real estate debt investments. Prior to joining CenterSquare, Mr. Mann served as a Corporate Compliance Specialist at Nationwide Funds Group, the investment adviser to a family of open-end investment companies and exchange-traded funds. He began his career in financial services at Wells Fargo, where he was first introduced to the operations of a FINRA-registered broker-dealer through Wells Fargo Advisors, its affiliated entity. With over a decade of experience in the investment management industry, Mr. Mann has a strong background in developing effective compliance programs and delivering practical solutions to complex regulatory challenges. He earned his Bachelor of Science degree in Finance from West Chester University of Pennsylvania.



# Agenda

- **Industry Trends**
- **Rulemaking Updates & SEC Structural Changes**
- **Practical Compliance Testing Considerations**
- **Chenery Compliance Group Insights**
- **2025 FY SEC Notable Cases**

# SEC Examination Priorities 2025

## Executive Summary

❑ 2025 SEC examination priorities continue to emphasize:

- Fiduciary duty,
- Conflicts,
- Private funds,
- Marketing Rule compliance,
- Valuation practices,
- Cybersecurity/operational resiliency,
- AI usage, and
- Crypto-asset risks.

❑ SEC will continue to focus examinations on newly registered and never-examined advisers.

❑ Key timetables shifted: FinCEN signaled postponing the investment adviser AML rule effective date to 2028, and the SEC extended certain Form PF compliance dates, affecting audit readiness calendars and control design roadmaps.

# Industry Trends

Continued focus on advisers' standard of conduct with emphasis on:

- High-fee or complex products,
- Illiquid/valuation-sensitive assets, and
- Interest rate risk exposures across client portfolios, including commercial real estate.

Heightened attention to:

- Emerging tech, particularly AI in:
  - Client interactions,
  - Advice generation,
  - Surveillance, and
  - Marketing, including controls for accuracy, bias, supervision, and disclosures.

# Rulemakings and Timing Shifts

## AML Rule

Treasury/FinCEN announced intent to postpone the effective date from January 1, 2026, to January 1, 2028, and to revisit scope; exemptive relief indicated to provide certainty pending further rulemaking, affecting build-out plans and implementation timing of AML controls for RIAs/ERAs.

## CIP Proposal

Related CIP proposal for investment advisers will also be revisited by SEC/FinCEN during the deferred period, signaling future adjustments to identity verification control expectations in advisers' ecosystems.

## Form PF Amendments

Form PF amendments compliance timing: further extensions, which implies continued SEC focus on private fund data reporting.

# Rulemakings Withdrawn

Rule	Description	Date of Proposal	Status
<b>Conflicts Associated with Predictive Data Analytics (AI)</b>	New rule to eliminate conflicts of interest between a firm's use of technologies in investor interactions. It would require a firm to have policies and procedures in place to prevent violations.	July 2023	Withdrawn
<b>Safeguarding Advisory Client Assets</b>	Amendments to improve the custody of client funds. Comment reopened to take account for new PF Adviser Audit Rule.	February 2023	Withdrawn
<b>Outsourcing by RIAs</b>	Prohibiting advisers from outsourcing certain services or functions without first meeting minimum requirements. Advisers must conduct due diligence prior to engaging a service provider and periodically monitor the performance.	October 2022	Withdrawn
<b>Enhanced ESG Disclosures by RIAs &amp; RICs</b>	Adopt requirements for investment companies and advisers related to environmental, social, and governance (ESG) factors.	May 2022	Withdrawn
<b>Cybersecurity Risk Management</b>	Adopt rules to enhance fund and investment adviser disclosures and governance relating to cybersecurity risks.	February 2022	Withdrawn

# SEC Staff and Structural Changes

- ❑ 2025 saw internal restructuring moves that re-aligned Enforcement and Examinations reporting lines under new deputy directors/associate directors, intended to streamline oversight and management across regions and specialized units.
- ❑ Leadership transitions
  - Paul Atkins was confirmed as SEC Chairman on April 9, 2025
- ❑ Senior departures and staffing environment
  - Multiple senior departures occurred in early 2025, including the Chief Accountant, DERA Director/Chief Economist, Acting Enforcement Director, General Counsel, and other senior officers, signaling institutional change across key policy and enforcement functions.
  - Broader federal downsizing trend affecting SEC staffing and capacity.

## SEC Staff and Structural Changes Likely Impacts on Exam Focus Areas

### Targeted Exams

Expect more targeted exams emphasizing fraud risk, retail harm, and high-impact areas.

### Private Fund Reporting

With Form PF amendments deferred and under review, examinations may emphasize current-state data governance and accuracy while deprioritizing not-yet-effective elements.

### Regional Coordination

Enforcement staff are now organized under new deputy directors by region (West, Northeast, Southeast) plus a deputy director for specialized units, replacing the prior single-deputy model.

### Phased Implementation

Greater openness to phased implementation and timeline accommodations where rules are under review or extended.

# Notable SEC No-action Letters

## ❑ **Crypto custody with state trust companies**

The Division of Investment Management issued a no-action letter on September 30, 2025, permitting RIAs and certain registered funds to treat qualifying state-chartered trust companies as “banks” for custody of crypto assets and related cash, subject to conditions around licensing, internal controls (e.g., SOC reports), segregation, client disclosures, and best-interest determinations.

## ❑ **Rule 506(c) accredited investor verification**

In March 2025, SEC staff provided interpretive relief clarifying an additional path for verifying accredited investor status in Rule 506(c) offerings, intended to add flexibility in private offering practices expanding compliant verification approaches for fund and issuer offerings.

## ❑ **Locating 2025 staff letters on SEC.gov**

SEC’s consolidated “No Action, Interpretive and Exemptive Letters” hub provides division indexes (Corp Fin, Investment Management, Trading and Markets, and OCA) where 2025 letters are posted as issued



# Testing Considerations for Compliance Examiners

## Fiduciary Duty & Conflicts

- Test that advice is in the client's best interest across product types, account types, and fee arrangements, including high-cost or illiquid assets.
- Review governance oversight of conflicts, including conflicts associated with interest-rate sensitive or hard-to-value holdings, and escalation procedures.

## Private Fund Advisers

- Review methodologies and workpapers for valuation of illiquid and hard-to-value assets; show price challenges and independent checks performed during stressed or volatile periods.
- Compare accuracy of fee and expense calculations with investor disclosures for: management fee step-downs, offsets, monitoring/transaction fee sharing, and broken-deal allocations, and fund vs. manager expense allocations.

# Testing Considerations for Compliance Examiners

## Illiquid Asset Valuation

Review that valuation judgments for illiquid assets can be substantiated and how they flow into fee calculations and investor reporting.

## AI/LMM Usage

Review if there are AI-enabled processes that interact with investment advice or marketing materials and determine if disclosures appropriately match current usage.

## Marketing & Performance

Review how factual marketing claims are substantiated.

Are compliance reviews ensuring fair and balanced presentations, net performance prominence, appropriate usage of hypothetical performance, and that marketing content is consistent with relevant disclosures?

# Regulation S-P Preparedness

- ❑ On September 25, 2025, the SEC held its first in a series of outreach events to prepare firms for the upcoming Regulation S-P amendments. Compliance dates are December 2025 for larger advisers (\$1.5B+ AUM) and June 2026 for smaller advisers (less than \$1.5B AUM).

- ❑ Examination Expectations:

## Incident Response Programs

- Governance structures, staffing, and vendor management.
- How client data is stored, transferred, and protected in cloud and CRM systems.
- Documentation of detections, responses, recovery, and notifications.

## Data Mapping

- Identification of where client data resides and how it is accessed.
- Evidence of controls across all systems that handle customer information.

## Cybersecurity and Risk Management

- Frameworks emphasizing identification, protection/detection, response, and recovery.
- Maintenance of a risk matrix and ongoing reassessments in dynamic environments.

## Third-Party Oversight

- Written agreements requiring provider compliance.
- Documentation of provider notifications, regulatory delays, and firm responses

## Remediation planning

A practical guide outlines how advisers should transform annual reviews, mock exams, and SEC examinations into action through structured remediation committees, clear ownership, and deadline-driven remediation logs that document issues, steps, responsibilities, and timelines. It stresses updating the compliance manual to reflect actual practices, integrating findings into risk assessments, and mitigating recidivism risk that can elevate fines, enforcement exposure, and reputational harm with regulators and investors.

## ERAs: common myths

An article addresses five prevalent myths about Exempt Reporting Advisers, clarifying the ERA concept and scope for firms relying on private fund adviser or venture capital exemptions and what ERA status does and does not require in practice. The focus is on correcting misunderstandings around registration, reporting, and compliance expectations that still apply to ERAs despite exemption from full registration.

## Rule 506(c) Guidance

Coverage highlights new staff guidance easing accredited investor verification by allowing reliance on high minimum investment amounts and purchaser representations, including recognition of installment commitments, absent contrary knowledge by the issuer. The updates provide a more workable pathway for private fund 506(c) offerings while reiterating that reasonable, facts-and-circumstances steps are still required and that all purchasers must be accredited for general solicitation to be permitted under Rule 506(c).

# Notable SEC 2025 FY Cases

## Marketing Rule & Advertising

*December 20, 2024:* RIA settled for misleading performance claims, failure to present net with gross, unsubstantiated claims, and improper hypothetical performance; also cited for Rule 204-2 performance records and Rule 206(4)-7 compliance failures.

*September 4, 2025:* RIA settled for claiming it “refuse[d] all conflicts of interest” in an advertisement, plus website recordkeeping lapses and failure to conduct an annual compliance review; \$75,000 penalty with undertakings.

## Whistleblower Protection

*January 16, 2025:* SEC charged two affiliated private fund advisers for separation agreements requiring attestations that individuals had not filed agency complaints, which could impede whistleblowing; part of a broader matter that also cited model vulnerabilities; each adviser paid \$45 million in penalties (total \$90 million) with cooperation/undertakings.

# Notable SEC 2025 FY Cases

## Custody, Books/records, & Supervisory Controls

*August 1, 2025:* RIA charged for custody rule violations in administrative proceedings.

*February 14, 2025:* Firm and an IAR sanctioned for converting brokerage to advisory accounts without adequate disclosure of higher costs and without best-interest analysis; firm paid \$150,000, rep paid \$75,000 and accepted a nine-month suspension.

## Conflicts of Interest & Compensation

*August 29, 2025:* RIA charged over inadequate disclosure of financial incentives for advisers tied to enrollment in fee-based advisory service (bonuses, pay increases, promotions); \$19.5 million penalty, with remedial acts noted.

## AML & Compliance Representations

*January 14, 2025:* Actions highlighted misrepresentations about voluntary AML program adherence by an adviser and related compliance failures; used in compliance roundups as a caution on overstating AML practices.



# Navigating AI: Hype vs. Value

**Robert Wilkinson**  
**Director, Technology Advisory &  
Practice Administration**

**Kreischer  
Miller**

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# Agenda

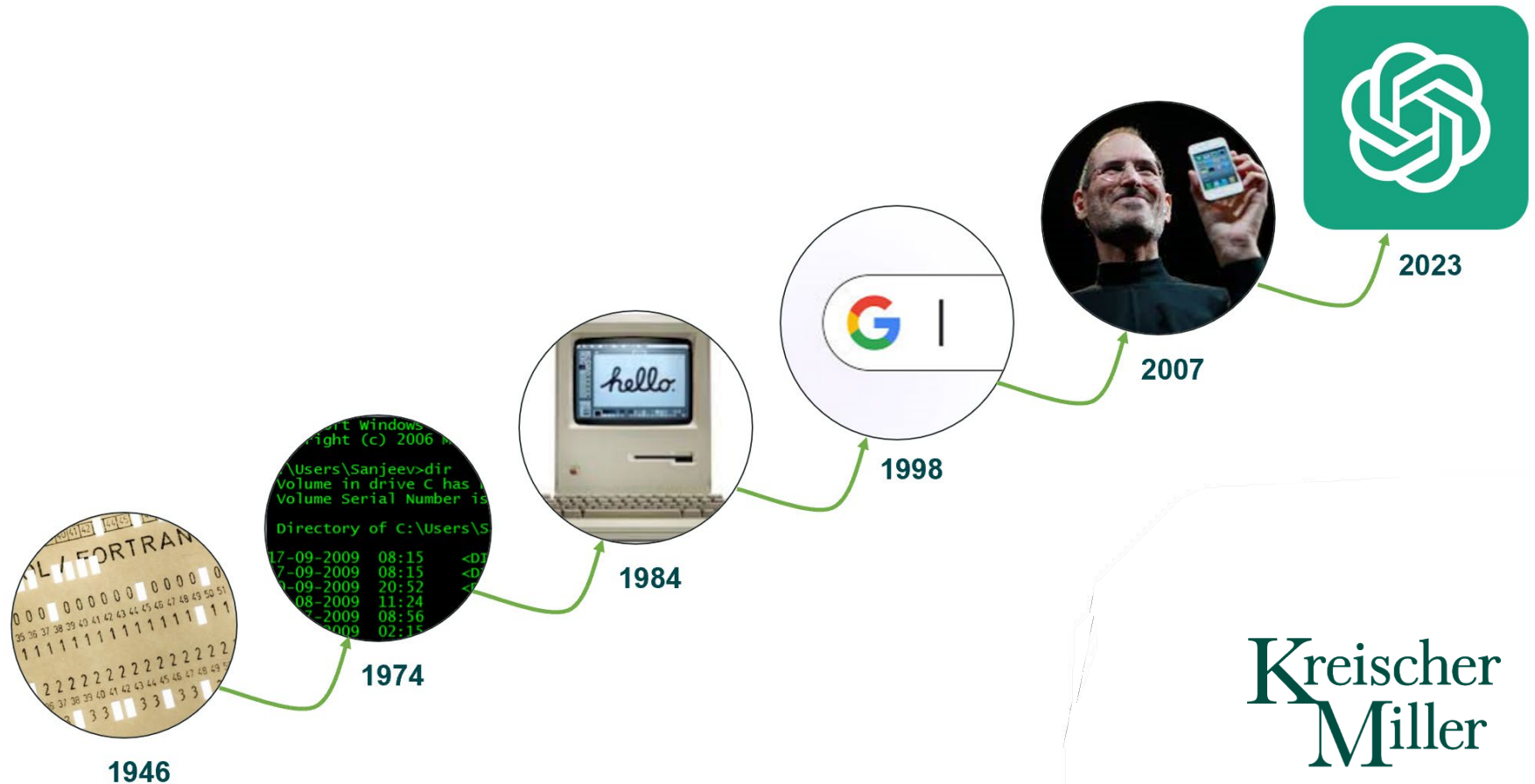
1. Hype
2. Reality Check
3. Proficiency
4. Where to Start
5. Getting More
6. Realizing Value



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Miller**



# AI is a Profound Shift



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# Hype

"AI is one of the most important things  
humanity is working on. It is more

## Learning how to use AI could boost your pay by 25%, study finds

By [Anna Cooban](#), CNN

2 minute read · Published 7:32 AM EDT, Tue May 21, 2024

## Will AI Replace Your Job? The Critical Skill You Need To Stay Employed

**Elon Musk**  
BILLIONAIRE TECH  
ENTREPRENEUR

New Report Highlights How Generative AI  
Can Transform Canada's Future with a  
potential to add \$187B to the Canadian  
Economy by 2030

June 4, 2024

Oct 2, 2024 - Technology

Productivity so  
exposed to AI, s

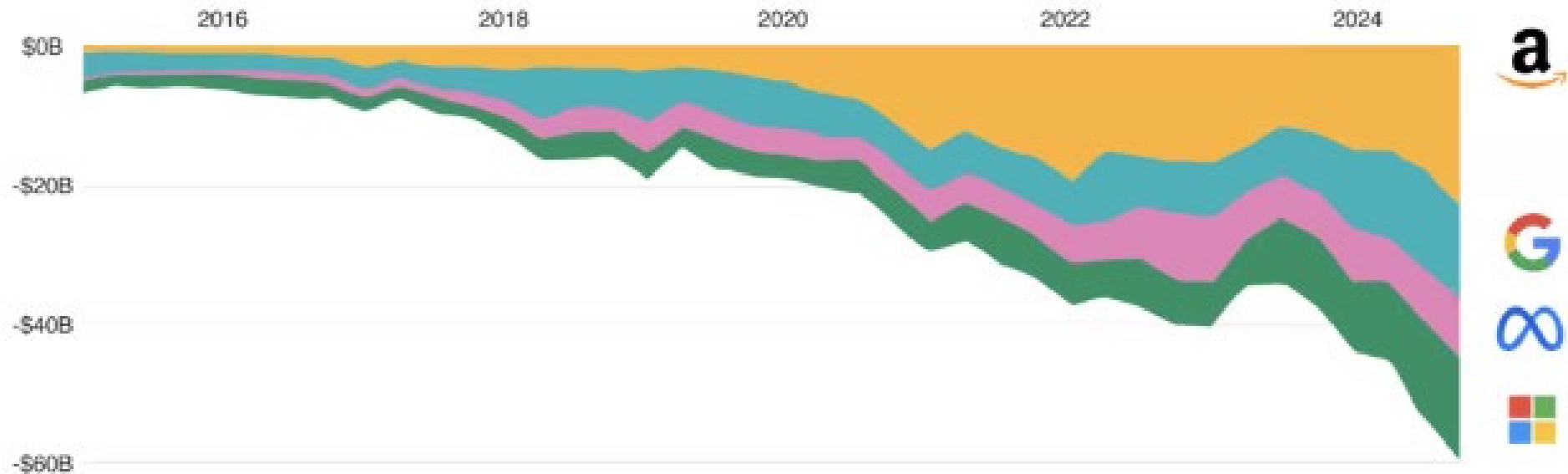
Employers in UK, one of  
premium for jobs requir

OpenAI raises \$6.6 billion in  
largest VC round ever

# Biggest Private Bet in History

**Capital Expenditure Among Cloud Operators**  
2014-Q3 2024

**Total capital spending exceeded  
\$200B in 2024, \$400B in 2025**

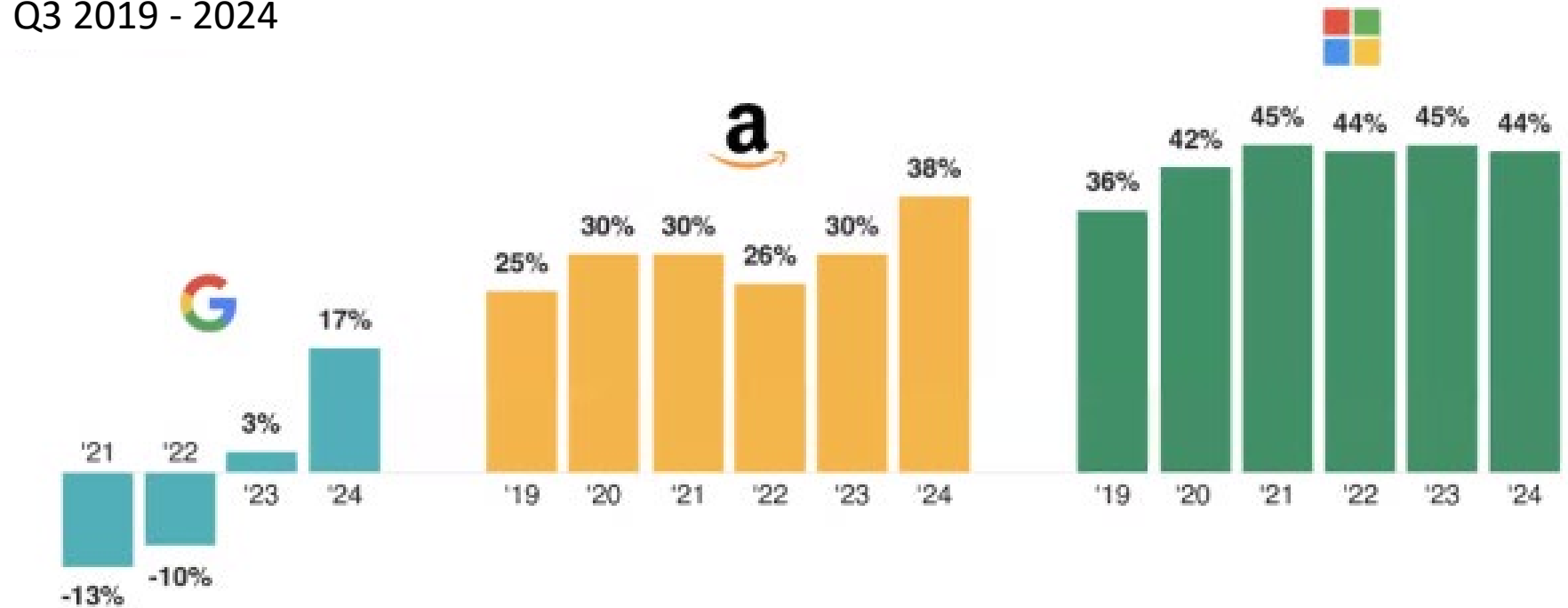


Source: Bloomberg, Company Filings

# Starting to Pay Off

## Cloud Operating Margins

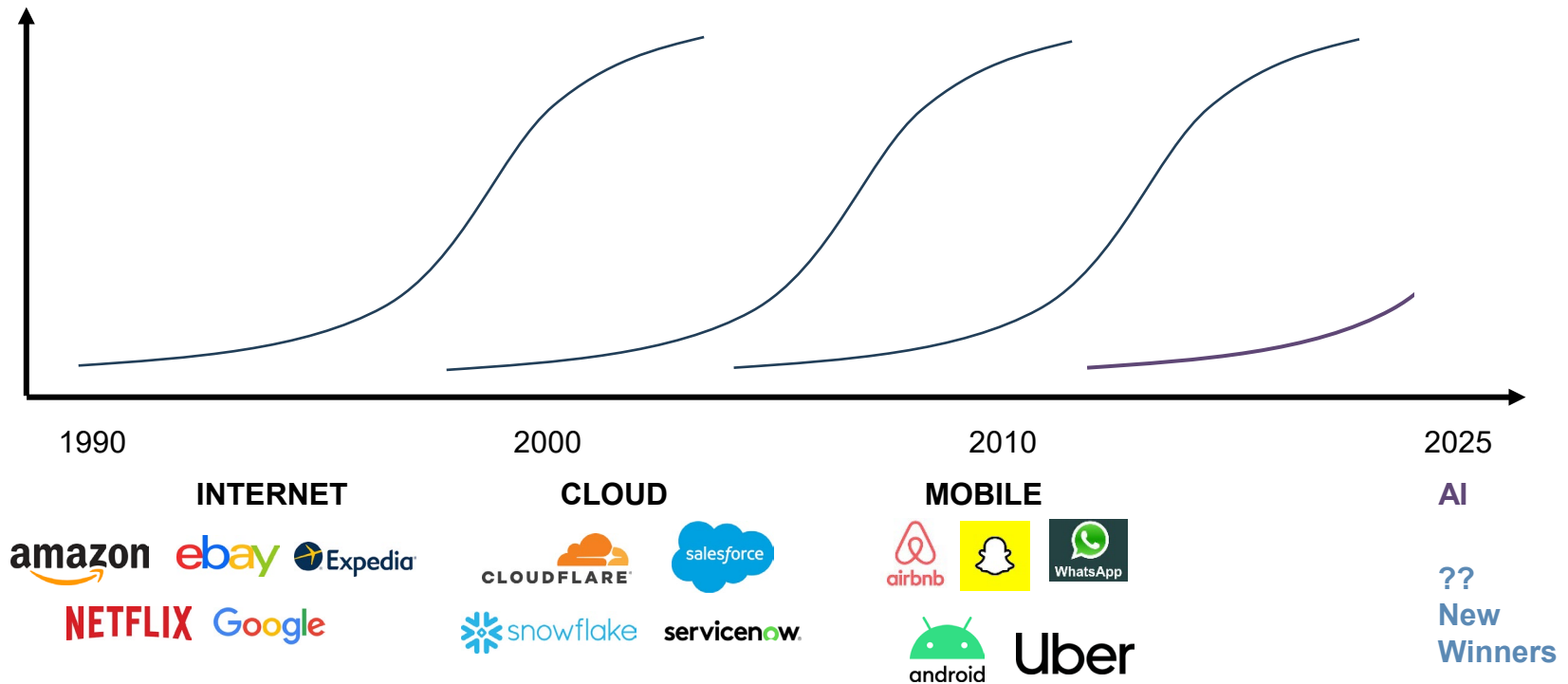
Q3 2019 - 2024



Source: Company Filings

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# We've Seen this Movie Before



# Business Objectives for AI

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*Deploying AI in business comes with an expectation for driving value*

## Revenue Generation

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Driving new business by innovating on product, sales, and customer experience.

- ☐ **Customer Analytics**
- ☐ **Sales Optimization**
- ☐ **Product Development**

## Cost Optimization

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Reducing or optimizing spend through automation, prediction, and other efficiency gains.

- ☐ **Process Automation**
- ☐ **Infrastructure Spend**
- ☐ **Vendor Management**

## Risk Mitigation

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Leveraging predictive analytics to identify and reduce potential threats.

- ☐ **Automated compliance**
- ☐ **Operational Resilience**
- ☐ **Cybersecurity**

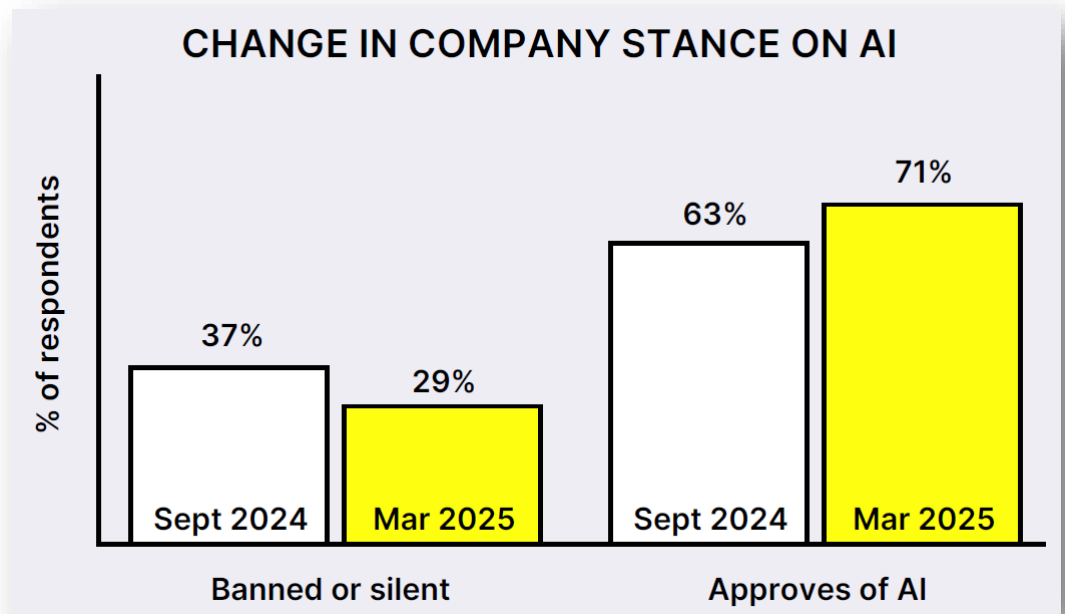
*Huge Promises...*

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Miller**

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# Speeding Up

In the last 6 months, companies have become more explicit about their approval of AI use – with about half of the workforce (49%) reporting that they have received clear AI policies on how they should and shouldn't use AI in their work.



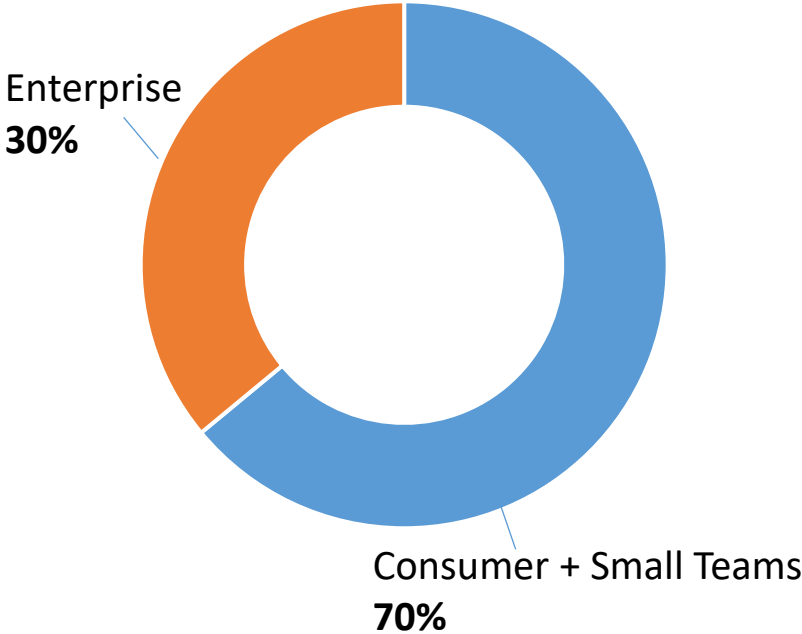
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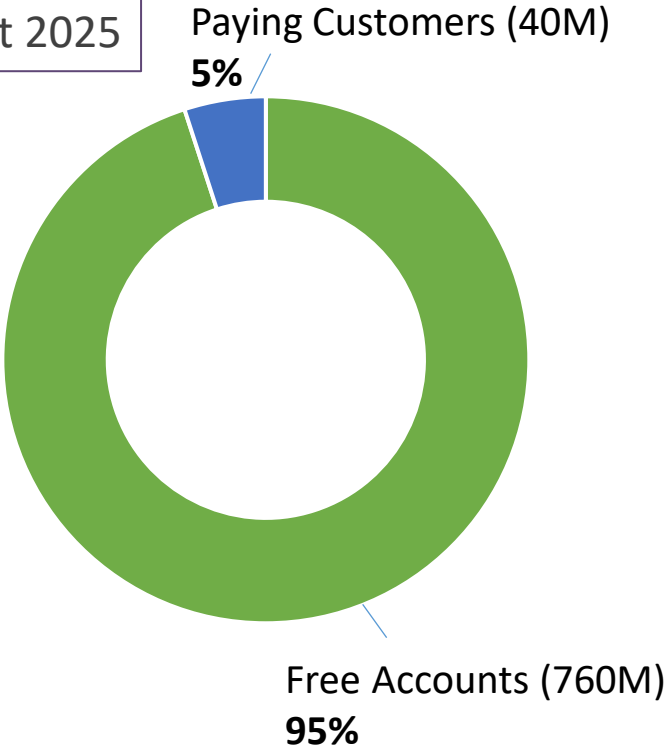
Source: Section AI Proficiency Report, Sept 2025

# Reality Check

OpenAI Revenue, by Source  
July 2025



OpenAI User Base  
Oct 2025

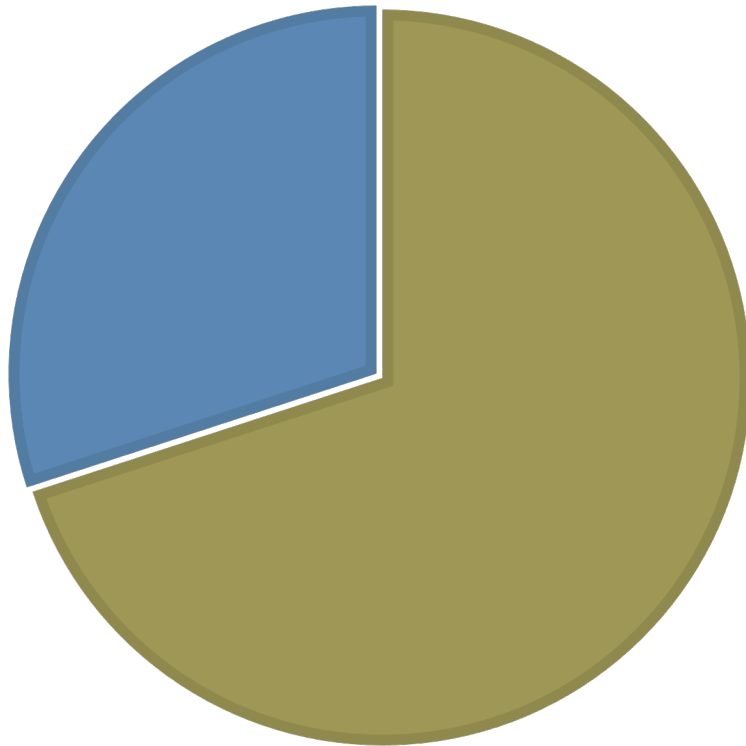


Source: Financial Times, Oct 2025



# AI Projects are Stalling

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70% of organizations have deployed **less than a third** of their generative AI experiments.

They're stuck in pilot

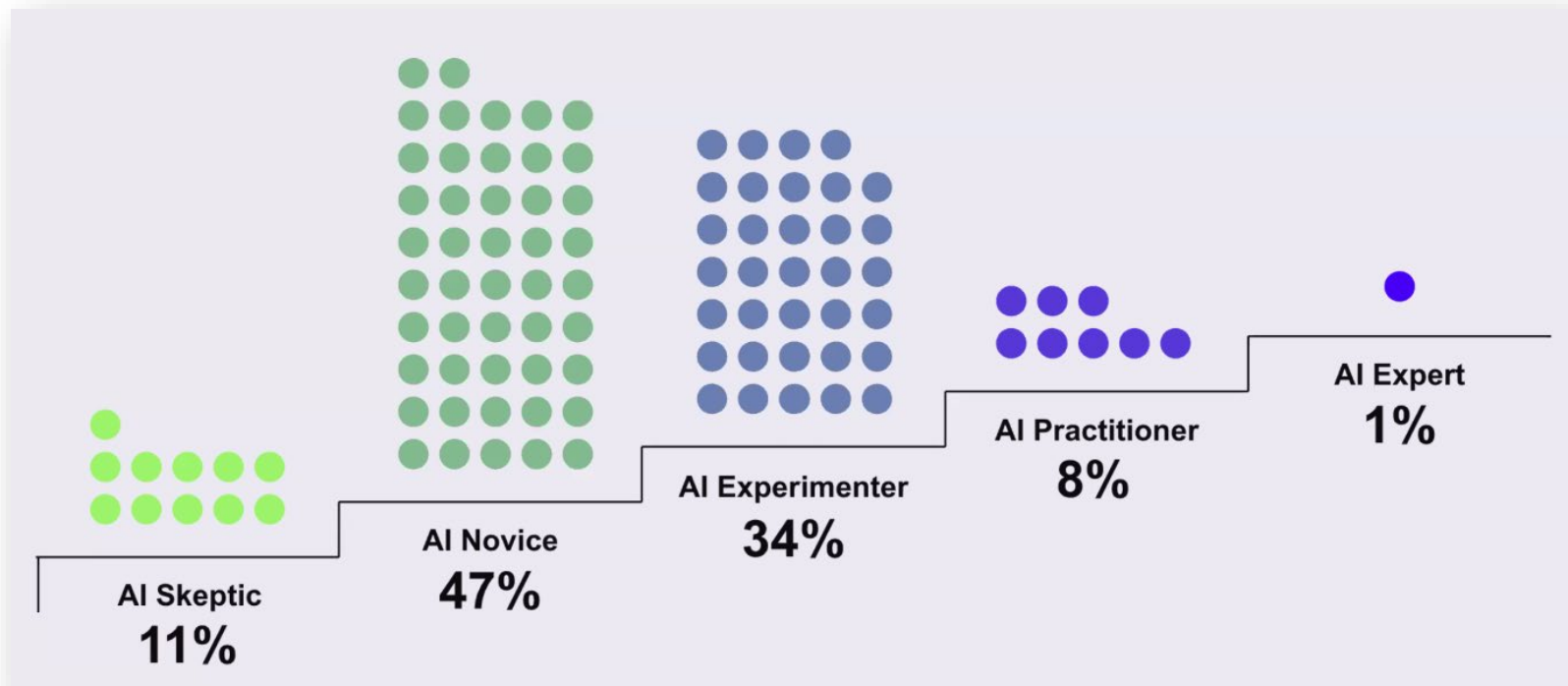
*Source: Deloitte's State of Generative AI in the Enterprise Q3 Report, August 2024.  
n=2,770 leaders surveyed*

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# Most organizations are nowhere near ready to deploy AI

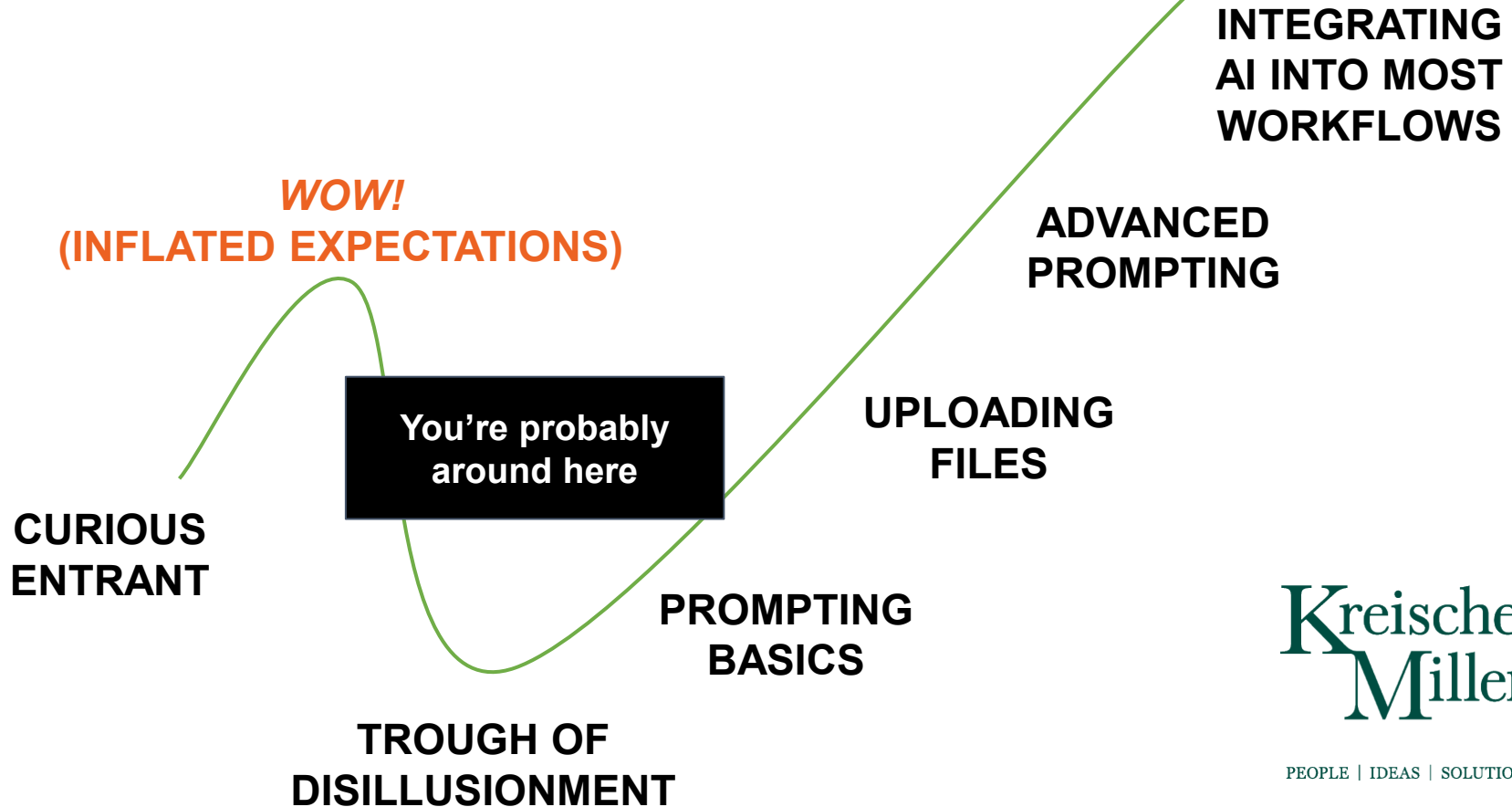
## Workforce AI Readiness Based on *Section AI Proficiency Benchmark*



Source: *Section AI Proficiency Report*,  
n=5,003 knowledge workers in the US, UK, and Canada

# AI Learning Curve

*for the whole organization*



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# Elephant in the Room

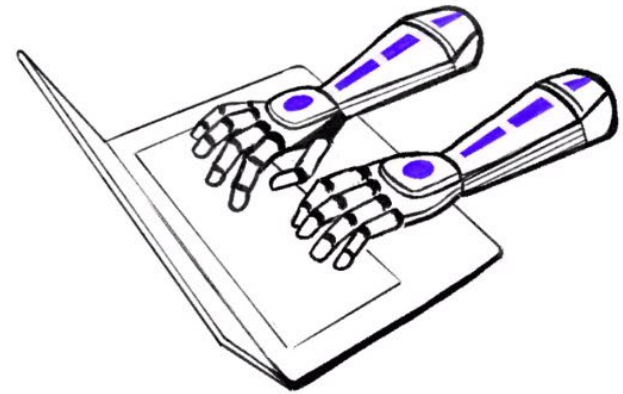
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What Big Tech is Selling



AI **extends** humans = **Higher Output!**

What Most CFOs are Buying

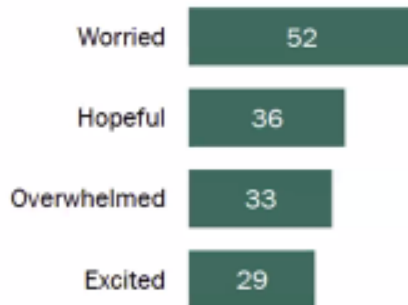


AI **replaces** humans = **Cost Savings**

# Elephant in the Room

## Workers are more worried than hopeful about future AI use in the workplace

% of employed adults saying they generally feel \_\_\_\_ about how AI may be used in the workplace in the future

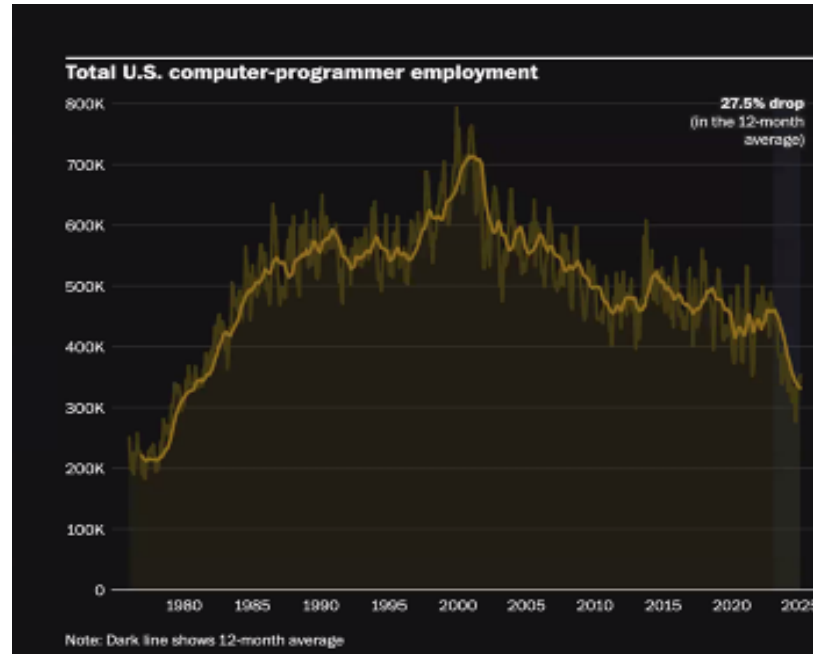


Note: Based on all employed adults, including 17% who have not heard about AI use in the workplace and were not asked this question.

Source: Survey of U.S. workers conducted Oct. 7-13, 2024.

"U.S. Workers Are More Worried Than Hopeful About Future AI Use in the Workplace"

PEW RESEARCH CENTER



Source: Current Population Survey from Bureau of Labor Statistics

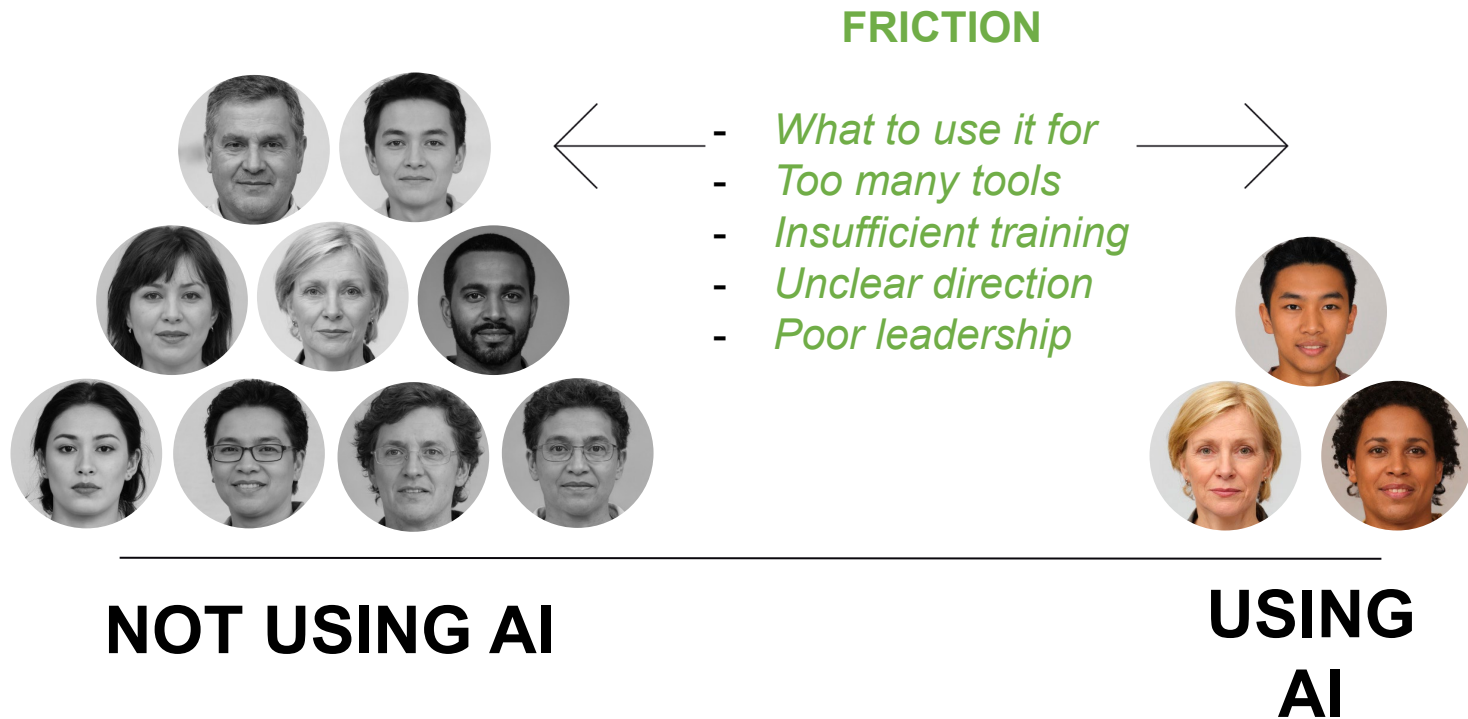
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# Knowledge Workers

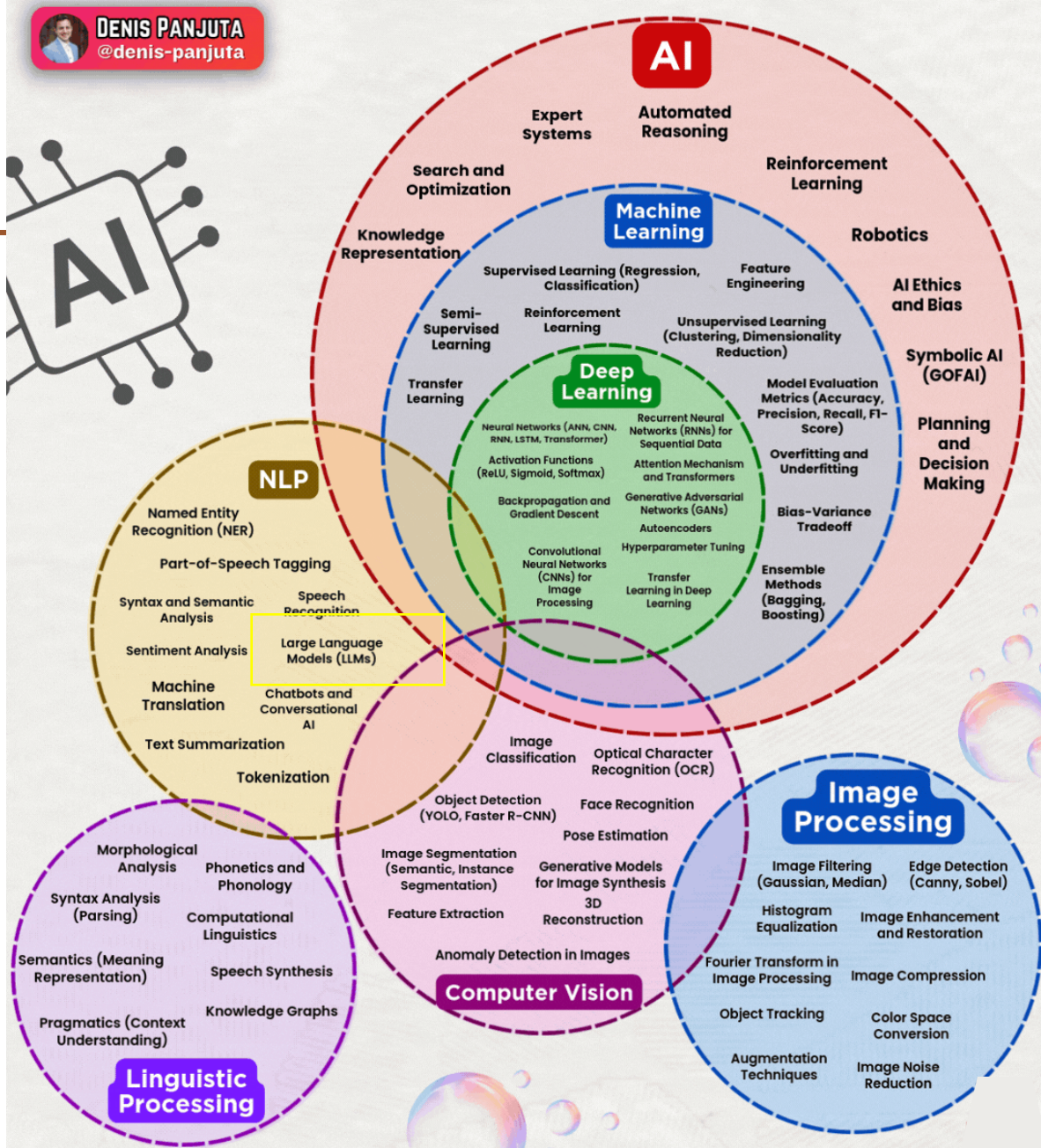
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A new class of will emerge.



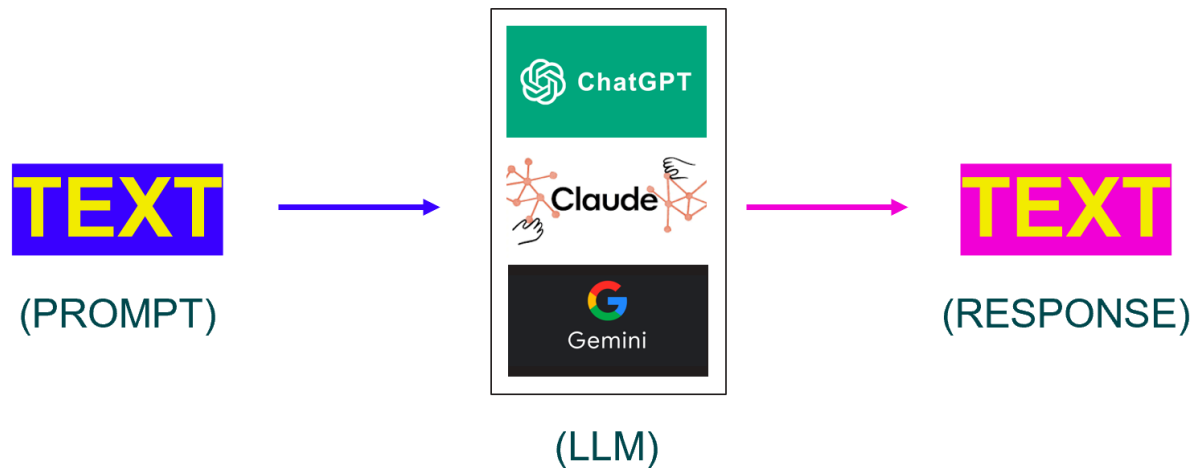


# Confusing



# What is an LLM?

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A computer interaction that **feels** like a natural conversation.

- But it's not **ACTUALLY** thinking. Just reflecting our world back to us.

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# Incredibly Capable

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## Imagine a Teammate who...

- Knows all the Internet's information
- Learns quickly
- Is highly logical, data-driven, and unemotional when making decisions
- Is analytical + highly creative
- Is infinitely patient and eager to please
- Doesn't get tired or bored
- **Can move across domains, functions, or discipline seamlessly**



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# Understands Language

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**ROYALTY**



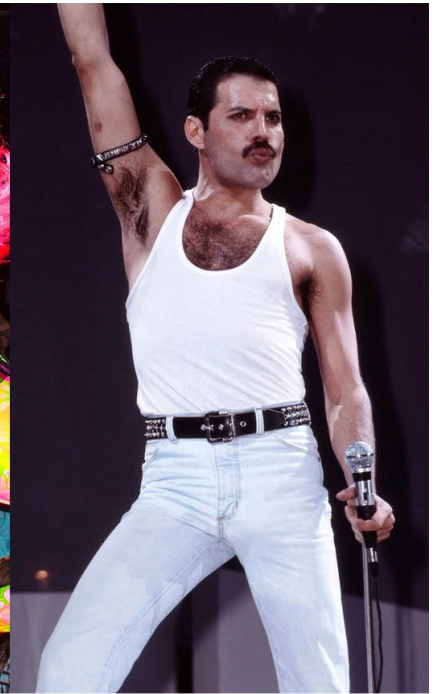
**CHESS**



**POKER**



**DRAG**



**ROCK N ROLL**

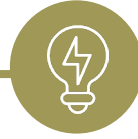
# Three Personas

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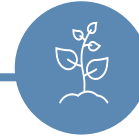
## ASSISTANT

Cut out drudge  
work



## STRATEGIST

Be your thought  
partner



## CREATOR

Build your first  
draft

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# Moving Up the Org Chart

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23 years old  
**Intern**  
\$50/hr.



29 years old  
**Analyst**  
\$100/hr.



40 years old  
**Decision-maker**  
\$400/hr.



**6 months ago**



**Today**



**Tomorrow**

*AI itself continues to improve and become more reliable.*

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# Not Perfect

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## That teammate also...

- Occasionally makes surprising mistakes
- “Hallucinates” or makes up answers when they see patterns that don’t make sense to humans
- Is overconfident – and it’s very tough to tell when they’re making up an answer
- Biased – just like other humans
- Performance varies day-to-day



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# Bad Data Affects AI

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You may be ready for AI, **but is your data?**

**“Garbage In, Garbage Out”**

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# Top-down Planning is Necessary



## Gen AI Adoption Roadmap

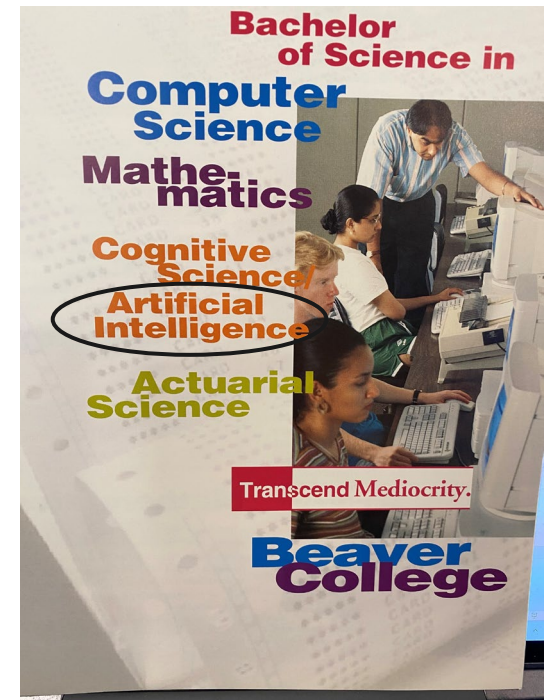


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# Driving Value

## Traditional Wisdom Still Applies:

- **Business alignment** – AI must still serve objectives, not the other way around.
- **Risk management** – The fundamentals (cybersecurity, continuity, compliance) remain essential.
- **Integration** – AI needs to fit into existing systems, processes, and data governance structures.
- **Change management** – *People*, not technology, determine adoption and impact.



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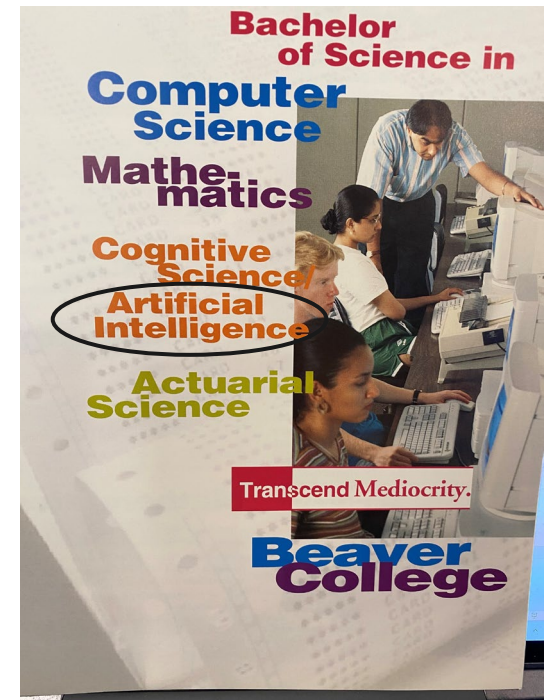
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# What's New, What's Not

## Where AI Demands a New Approach:

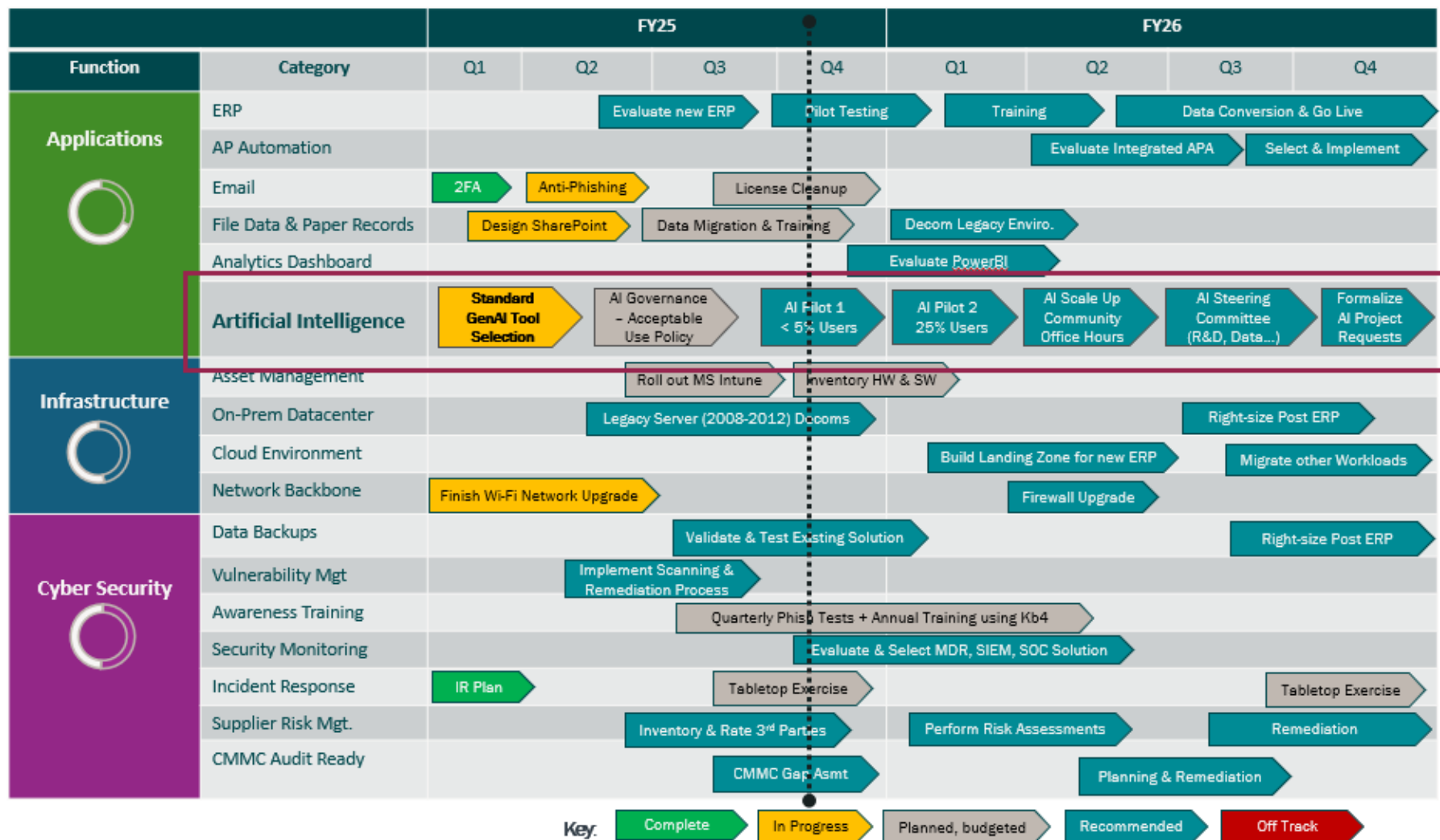
- **Pace of change** – AI tools evolve monthly, not yearly, so roadmaps must adapt faster than traditional IT cycles.
- **Governance & ethics** – Bias, IP, and data privacy require frameworks that didn't exist before.
- **Experimentation** – AI use cases often start as pilot programs, not big projects; success depends on iterative learning rather than waterfall planning.
- **Talent** – New skills are required (prompt engineering, model oversight, data science) that aren't in the "traditional IT playbook."



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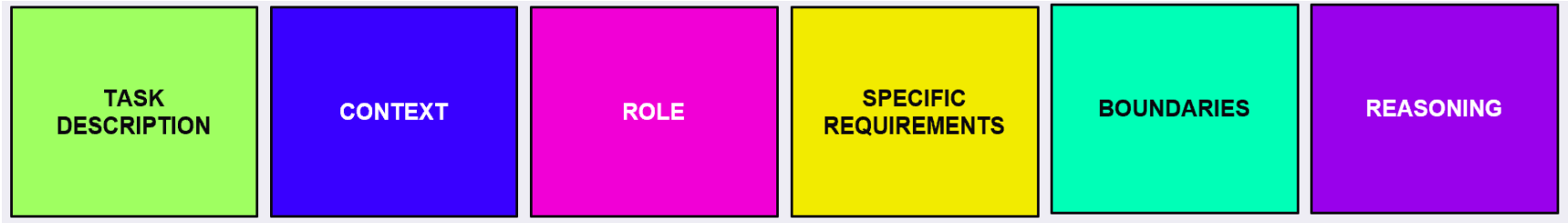
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# Example Roadmap



# The Ideal Prompt

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## STARTER TEMPLATE

"As a **[Role]**, **[Task Description]** for **[Context]**. Please adhere to **[List Specific Requirements]**. Avoid **[Boundaries]**. Explain your reasoning for **[xx]**?"

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# AI as a Thought Partner

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1. Ask for ideas, not answers
2. More context is better
3. Use decision frameworks
4. Ask it to adopt a persona
5. Make it explain and defend its ideas
6. Provide context & data



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# Try It

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In any medium to high stakes decision: Get your Version 1 ideas from AI!

**Then make it better as a human.**

I'm deploying [LLM name, e.g., ChatGPT, Claude, or Copilot] to my team at [firm name]. We are an [investment management / private equity / broker-dealer / family office] firm operating in the [investment] industry with [number] employees.

Our work involves activities such as [e.g., portfolio analysis, due diligence, research, client communication, and compliance oversight].

Before providing recommendations, please ask me **5 specific questions** about our business model, investment strategy, and operational workflows to better understand our context and needs.

After that, please generate a list of **50-100 potential AI use cases** that our team could implement to improve research efficiency, portfolio management, investor communication, compliance monitoring, and overall decision-making.

Focus on practical, high-impact applications that leverage **modern LLMs** for real-world investment operations — not just generic office productivity.

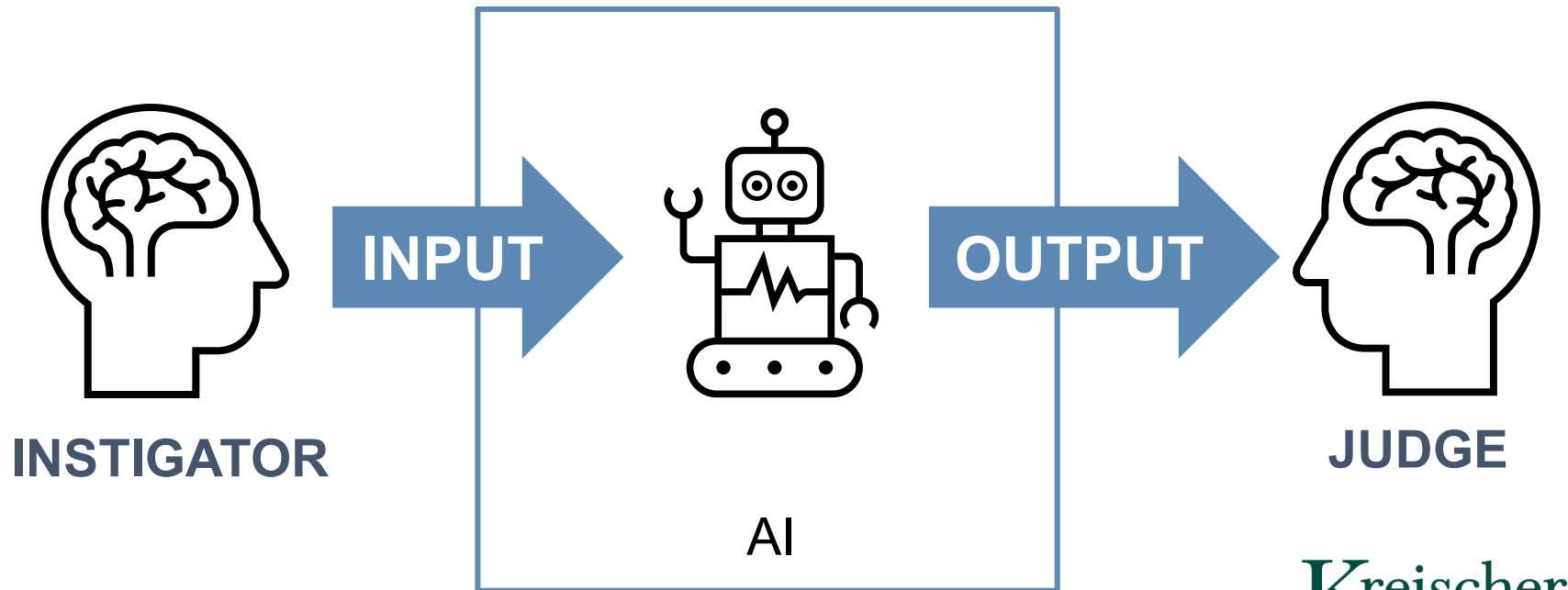
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# Getting Value Requires Critical Thinking

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AI as our co-pilot, not our master.



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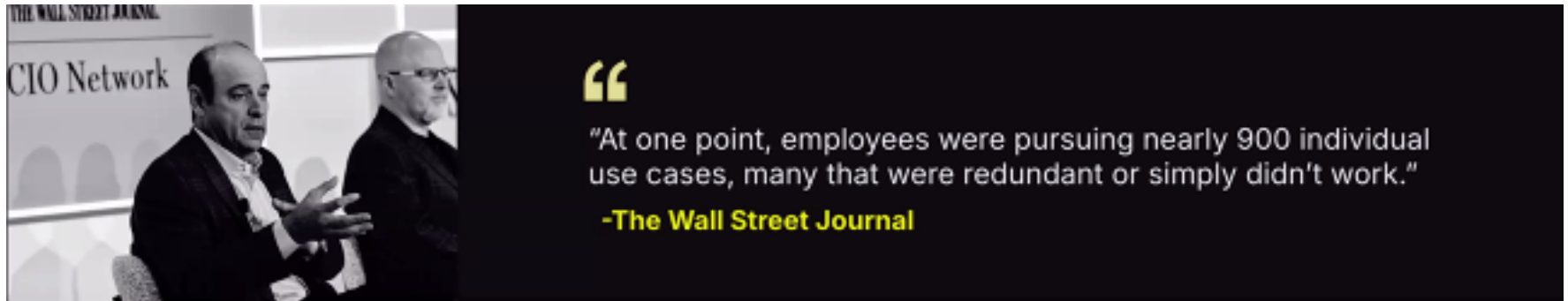
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# Cautionary Tale

CIO JOURNAL

## Johnson & Johnson Pivots Its AI Strategy

*Jeff*



Source: Wall Street Journal, April 2025

### — Scattershot Approach

Attempted the “Let 1000 flowers bloom” strategy to encourage new ideas.

### — Wrong Ownership

Rollout & metrics were owned by IT and data-science; not practitioners or executives.

### — Wasted Investment

85-95% of projects were redundant out of 900 identified use cases.

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# Realizing Value

## ***Conventional wisdom still applies***

- **Start with Business Alignment**  
Clarify where AI truly drives enterprise value (efficiency, insights, risk reduction)
- **Get AI Out of the Shadows**  
Encourage responsible experimentation. Pilot use cases before scaling.
- **Build Governance for Scale**  
Establish an AI oversight or steering function that includes data, technology, and compliance leaders.  
Set policies for use, data ownership, and vendor selection —avoid hidden risks.
- **Upskill**  
Provide people the time & training to utilize this incredible new technology.



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# Contact the Presenter

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**Robert Wilkinson, CISSP, CEH**  
**Director, Technology Advisory & Practice Administration**  
[rwilkinson@kmco.com](mailto:rwilkinson@kmco.com)

Rob specializes in serving as a strategic advisor to executive teams and boards, helping organizations make informed, business-aligned decisions about their IT investments and cybersecurity posture.

His areas of focus include:

- Technology Executive Advisory
- Cybersecurity Risk & Maturity Assessments
- IT Program & Organizational Assessments
- ERP & Business Application Strategy
- Incident Response & Preparedness Planning

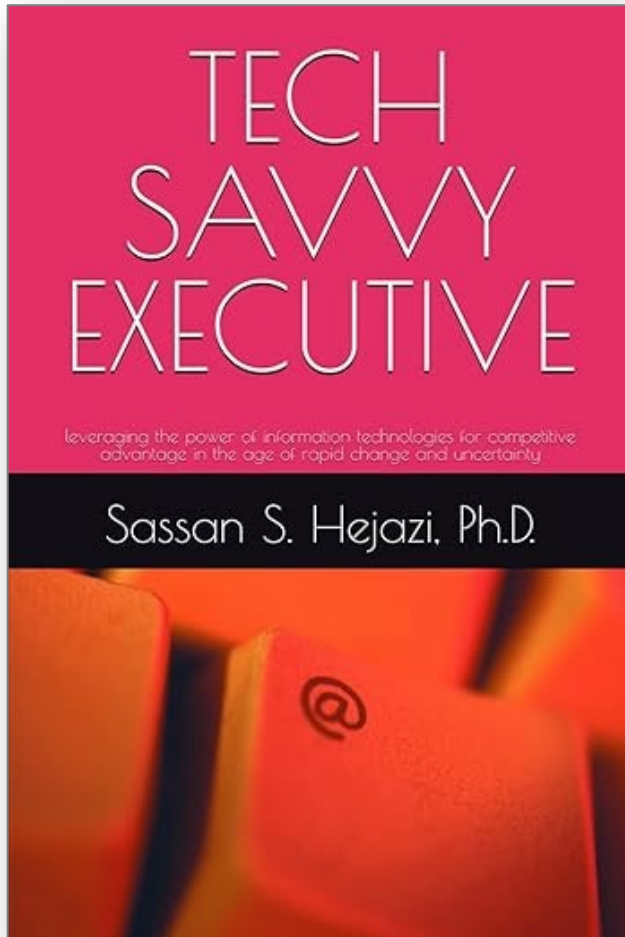
With over 18 years of global consulting experience, Rob has advised companies of all sizes, from closely held businesses to global enterprises, on how to build technology programs that balance innovation with risk management. His work spans IT operations, cybersecurity frameworks, digital transformation, and financial/ERP systems strategy.

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# Primary Sources

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**PennState**  
Great Valley

**Deloitte.**

**WSJ**

 **section**



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# Part Two Current Tax Update

**Richard J. Nelson**  
Director, Tax Strategies

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# Agenda

1. Section 1202 QSBS
2. Charitable Contribution Deductions
3. Estate Tax Exemption Increase
4. Disguised sales or Payment for services
5. Controlled Foreign Corporation downward attribution
5. California Tax Update



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# Section 1202 QSBS

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- Qualified Small Business Stock Exclusion allows investors to exclude up to 100% of capital gains on sale of certain qualified C Corporation stock.
- New enhanced rules apply to stock issued after July 4, 2025.



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# Section 1202 QSBS

Rule	Old QSBS (Pre-July 4, 2025)	New QSBS (Post-July 4, 2025)
Excluded gains by holding period	5+ years: 100%	Gain excluded: 3 years: 50% (28% rate) 4 years: 75% (28% rate) 5 years: 100%
Capital gains exclusion cap	Greater of \$10 million or 10x basis	Greater of \$15 million or 10x basis
Company eligibility	\$50 million in gross assets	\$75 million in gross assets
Applicability date	Stock issued prior to July 4, 2025	Stock issued after July 4, 2025



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# Section 1202 QSBS

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- QSBS stock can be a powerful planning structure
- Clients setting up new businesses
- Private Equity is utilizing QSBS stock more
- In addition to federal treatment, take into consideration state taxes to determine whether structure is appropriate. Some states conform to the federal rules, others do not



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# Charitable Contributions-Itemizers

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## **New Floors on Charitable Contribution Deduction:**

- 0.5% of adjusted gross income (AGI) for individual taxpayers
- 1% of taxable income for C corporations
- Effective after December 31, 2025

## **Impact Example – Individual Taxpayer:**

An individual with \$1,000,000 in AGI must contribute at least \$5,000 (0.5%) before any charitable donations become deductible. If the taxpayer donates \$4,000, none of it would be deductible. If they donate \$10,000, only \$5,000 would be deductible under the new rule.



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# Charitable Contributions Non-Itemizers

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- OBBB establishes a charitable contribution deduction for individuals who do not itemize.
- Deduction up to \$1,000
- Deduction up to \$2,000 if married filing joint



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# Permanent Increase in Estate and Gift Tax Exemption

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- Beginning in 2026, the OBBB raises the lifetime estate and gift tax exemption amounts to:
  - \$15 million for individuals
  - \$30 million for married individuals
  - Amounts will be indexed for inflation
- Annual gift tax exclusion is \$19,000 in 2025.



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# Disguised Sales or Payment for Services

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- Rules are found in Section 707(a)(2).
- Allows the IRS to recharacterize certain transactions involving partners and partnerships. The IRS can use this rule to recharacterize transactions resulting in the recognition of ordinary income instead of capital gains.

For example:

1. The IRS can use this section to treat the exchange of a partnership interest for waived management fees or carried interest as disguised payments for services, causing the fund manager to recognize ordinary income.
2. Contributions of cash to a partnership followed by a distribution to the partners may be recharacterizes as a purchase of a partnership interest from the selling partners.



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# Disguised Sales or Payment for Services

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- The rule has been in place, so what changed?
- Old law language stated rules operate "under regulations prescribed by the Secretary"
- Only proposed regulations have been issued
- New law modifies that language to "except as provided by the Secretary"
- Clarifies that the statute applies even in the absence of regulations
- Act also delegated significant authority to the IRS to provide operational rules
- The provision is effective for services performed and property transferred after July 4, 2025
- **Question:** Can taxpayers argue that the rule does not apply to prior transactions because of the lack of regulations?



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# Controlled Foreign Corporations

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- Downward attribution is a tax concept that applies when determining the ownership of a controlled foreign corporation (CFC) for U.S. tax purposes. Under downward attribution rules, stock owned by a foreign person can be attributed to a U.S. person, potentially creating an "inadvertent" CFC and triggering additional U.S. tax and reporting obligations.
- 2017 Tax Cuts and Jobs Act repealed the rules that prohibited downward attribution which expanded the scope of foreign corporations that could be classified as a CFC.



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# Controlled Foreign Corporations

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- **Example of downward attribution under the TCJA**
- Consider the following structure before the TCJA repeal of IRC Section 958(b)(4):
  - A foreign parent corporation (FP) owns 100% of a foreign subsidiary (FS).
  - FP also owns 100% of a U.S. subsidiary (US Sub).
  - US Sub owns no stock in FS.
  - Before the TCJA, no ownership was attributed from FP to US Sub. After the TCJA repeal, FP's 100% ownership of FS is attributed downward to its U.S. subsidiary (US Sub). This makes US Sub a constructive U.S. shareholder of FS, causing FS to be classified as a CFC.



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# Controlled Foreign Corporation

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- **CFC Status:** Many foreign corporations that became CFCs solely due to downward attribution after the TCJA will no longer be considered CFCs.
- **Compliance requirements:** Taxpayers including fund managers who were affected by downward attribution must reevaluate their structures to determine if they still have CFC reporting obligations. Some may no longer be required to file Form 5471.



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# California Tax Update

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- Eight years of public hearings and several rounds of drafting, California has adopted amendments to its market-based sourcing regulation.
- Applies to tax years beginning on or after January 1, 2026.



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# California Tax Update

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- **“Look-through” sourcing:** The FTB's regulation requires fund managers to “look through” the investment fund itself to determine the domicile of the individual investors or beneficial owners. This means a manager's revenue is sourced based on where the ultimate beneficiaries of the fund are located, not the location of the fund entity.
- **Customer location:** For receipts from asset management services, the customer's location is considered the domicile of the investor or beneficial owner.
  - **Determining domicile:** An investor's domicile is presumed to be their billing address, according to the manager's records, unless there is evidence that their primary residence or principal place of business is elsewhere.



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# California Tax Update

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- **Apportionment formula:** A fund manager's California sales factor is calculated proportionally based on the average value of the assets held by California-resident investors or beneficial owners.
- **Application to different funds:**
  - **Standard asset management services:** The "look-through" rule applies to a broad range of asset management services provided to funds.
  - **Mutual fund services:** Services provided to regulated investment companies (RICs), such as mutual funds, are subject to existing "look-through" apportionment rules based on shareholder location.



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# California Tax Update

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## Impact on managers:

- The application of these rules can have a significant impact, potentially creating a California nexus and filing requirement for out-of-state fund managers who have a sufficient level of investment from California-based clients.
- In-state asset managers who provide services to investors located outside of California could benefit.



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# Contact the Presenter

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Rich is a Director in Kreischer Miller's Tax Strategies group. He has extensive experience providing domestic and international tax strategies, planning and services to a variety of middle market companies and entrepreneurial businesses in a number of industries including manufacturing, distribution, real estate, financial, and professional services. He also has significant experience and expertise with high-net-worth individuals, investment companies and pass-through entities and has been involved in federal, state, and local tax audits, settlements, and appeals.



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# About Kreischer Miller

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