



## AUDIT AND COMPLIANCE COMMITTEE CHARTER<sup>1</sup>

### **I. Purpose**

The Audit and Compliance Committee (“Committee”) is created by the Board of Directors (the “Board”) of American Capital Strategies, Ltd. (the “Corporation”) to assist the Board in fulfilling its oversight responsibilities for the accounting and financial reporting processes of the Corporation and the audits of the Corporation’s financial statements, including without limitation, by monitoring:

- a. the integrity of the Corporation’s financial statements and internal controls;
- b. the qualifications, independence and performance of the Corporation’s independent auditor;
- c. the performance of the Corporation’s internal audit function; and
- d. the Corporation’s compliance with legal and regulatory requirements.

### **II. Limits Inherent in the Committee’s Role**

It is not the duty of the Committee to prepare the Corporation’s financial statements, to plan or conduct audits or to determine that the Corporation’s financial statements are complete and accurate and are prepared in accordance with generally accepted accounting principles. The Corporation’s management is responsible for preparing the Corporation’s financial statements and for maintaining internal controls. The independent auditor is responsible for auditing the financial statements and for expressing an opinion as to whether those audited financial statements fairly present the Corporation’s financial position, results of operations and cash flows in conformity with generally accepted accounting principles.

### **III. Authority**

The Committee has the authority to conduct or authorize investigations into any matters within its scope of responsibility. This includes the ability to retain independent counsel, accountants, or others to advise the Committee or assist in the conduct of an

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<sup>1</sup> Adopted by the Board of Directors on February 24, 2005, as amended on February 21, 2008.

investigation. The Committee has the power to seek any information it requires from employees or external parties and to meet with company officers, the independent auditor, the internal auditor or outside counsel as necessary.

If authorized by the Corporation's By-laws, the Committee may delegate authority to subcommittees, of one or more Committee members, including the authority to pre-approve permitted non-audit services, provided that such decisions are presented to the full Committee at its next scheduled meeting.

#### **IV. Membership**

The Committee shall consist of at least three members, including a chairman, designated by the Board, and comprised solely of independent directors meeting the independence and experience requirements of the Securities and Exchange Commission ("SEC") and the NASDAQ Stock Market.

Each Committee member shall be, or shall become within a reasonable period of time after his or her appointment, financially literate. At least one Committee member shall have accounting or related financial management expertise and at least one member shall be designated as a "financial expert" as defined by applicable legislation and SEC regulations.

#### **V. Meetings**

The Committee shall meet in person, or by conference call, as often as it determines is appropriate to carry out its responsibilities under this charter, but not less frequently than quarterly. Meeting agendas shall be prepared and provided in advance to members, along with referenced materials. Minutes of each meeting shall be prepared and maintained at the Corporation's headquarters.

The Committee periodically shall meet in separate executive sessions with each of management, the Chief Compliance Officer, the senior internal auditing officer and the independent auditor, and have such other direct and independent interaction with such persons from time to time as the members of the Committee deem appropriate. The Committee may request an officer or employee of the Corporation to or the Corporation's outside counsel or independent auditor to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee. The Committee shall also meet in executive session, without any other attendees, whenever appropriate.

#### **VI. Principal Committee Responsibilities**

The following are the principal recurring processes of the Committee in carrying out its oversight responsibilities. The processes are set forth as a guide with the understanding that the Committee, or the full Board, may supplement them as appropriate. The Committee shall also perform other activities as requested or delegated by the Board:

a. Board Reports

The Committee shall regularly report to the Board about Committee activities and issues, including those that arise with respect to the quality or integrity of the Corporation's financial statements and internal controls, the Corporation's compliance with legal or regulatory requirements, the performance and independence of the Corporation's independent auditor, the performance of the internal audit function, quarterly valuations of assets and any other matters that the Board requests or the Committee deems appropriate.

b. Open Communications

The Committee shall maintain open communications with management, the independent auditor, the senior internal auditing officer, the Chief Compliance Officer and the Board.

c. Independent Auditor

*i. Retention, Oversight and Reporting*

The independent auditor shall report directly to the Committee, which shall oversee the role of the independent auditor from selection to termination, including appointment, evaluation, retention and approval of services and fees. The Committee shall:

- a) review and approve the scope and staffing of the independent auditor's annual audit plan and the fees related thereto, including coordination of the audit effort with the internal auditor;
- b) evaluate the independent auditor's qualifications, performance and independence, including considering whether the auditor's quality controls are adequate and its provision of permitted non-audit services is compatible with maintaining the independent auditor's independence;
- c) present the Committee's conclusions and recommendations with respect to the independent auditor to the Board on at least an annual basis; and
- d) discuss with the independent auditor material issues on which the national office of the independent auditor was consulted by the Corporation's audit team.

The Committee shall also pre-approve each permissible non-audit service to be provided by the independent auditor and the related fees and terms proposed, subject to the *de minimus* exception for non-audit services described in

Section 10A(i)(1)(B) of the Securities Exchange Act of 1934, as amended, that are approved by the Committee prior to the completion of the audit.

At least annually, the Committee shall review and evaluate the senior members of the independent auditor's audit team, particularly the lead audit partner and the other partner with primary responsibility for reviewing the audit. The Committee shall also consider the ongoing engagement of the audit firm in addition to the rotation of the lead audit partner, the other partner with primary responsibility for reviewing the audit and any other audit partners, as required by law, so as to assure continuing auditor independence or for other appropriate reasons. In making these reviews, the Committee shall obtain the opinion of management and the senior internal auditing officer regarding the independent auditor's performance.

The Committee shall also establish policies for the Corporation's hiring of employees or former employees of the independent auditor.

*ii. Independence Review*

At least annually, the Committee shall obtain and review a report by the independent auditor describing:

- a) the firm's internal quality-control procedures;
- b) any material issues raised by the most recent internal quality-control review, or peer review of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm; and
- c) any steps taken to deal with any such issues; and
- d) all relationships between the independent auditor and the Corporation, consistent with Independence Standards Board Standard No. 1.

It is the responsibility of the Committee to engage in a dialogue with the independent auditor with respect to any disclosed relationships or services that may impact the objectivity and independence of the independent auditor and for purposes of taking, or recommending that the full Board take, appropriate action to oversee the independence of the outside auditor.

d. Internal Auditor

*i. Selection and Evaluation*

The Committee shall review and discuss with management candidates for the senior internal auditing officer position and provide its views to management and the Board.

At least annually, the Committee shall evaluate the performance, responsibilities, budget and staffing of the Corporation's internal audit function, including a discussion of these issues with the independent auditor. The Committee shall ensure that there are no unjustified restrictions or limitations on the internal audit function.

The annual evaluation shall include a review of the senior internal auditing officer and the Committee shall make recommendations to the Board and management regarding the responsibilities, retention or termination of such officer.

*ii. Annual Plan*

The Committee shall review with the senior internal auditing officer, and with management, the annual internal audit plan and the resources to be devoted to that plan.

*iii. Individual Internal Audits*

The Committee shall review the results of internal audits and any other significant reports to management prepared by the internal audit department and discuss with the senior internal auditing officer and management responses by management to such audits and reports..

e. Internal Control Over Financial Reporting and Information Technology

The Committee shall review the adequacy of the Corporation's internal control over financial reporting with the senior internal auditing officer, the independent auditor and management, including, without limitation, the disclosures made by the Chief Executive Officer and Chief Financial Officer during their certification process for the Corporation's periodic reports on Form 10-K and Form 10-Q regarding significant deficiencies and material weaknesses in the design or operation of the Corporation's internal control over financial reporting and any fraud, whether or not material, that involves management or other employees who have a significant role in the Corporation's internal control over financial reporting.

The Committee shall also review the effectiveness of the Corporation's system for information technology security and controls.

The Committee shall review any changes implemented by management to address control deficiencies or to make controls more effective as well as management's annual report on the Corporation's internal control over financial reporting.

f. Asset Valuations

The Committee shall review the quarterly valuations of the Corporation's assets, as proposed by management, which shall be made in accordance with the Investment Company Act of 1940, as amended (the "1940 Act") and the rules and regulations promulgated thereunder and shall provide a recommendation to the Board with regard to its approval thereof. In such review, the Committee shall discuss the proposed valuations with management, the independent auditor and any other consultants or advisors to the Board or the Corporation.

g. Financial Statements and Reports

i. *Annual Audit/Quarterly Reviews*

After the completion of the annual audit examination of the Corporation, as well as completion of the quarterly interim reports, or otherwise as needed, the Committee shall review and discuss with management, the senior internal auditing officer and the independent auditor, among other things:

- a) complex or unusual transactions and highly judgmental areas;
- b) any analyses or reports prepared by management, the internal auditor and/or the independent auditor setting forth significant accounting or financial reporting issues and judgments made in connection with the financial statements, including critical accounting estimates and analyses of the effects of alternative GAAP methods on the financial statements;
- c) the effect of new or proposed regulatory and accounting initiatives or actions, off-balance sheet structures and related party transactions on the financial statements of the Corporation; and
- d) any major issues regarding accounting principles and financial statement presentations, including any significant changes in the Corporation's selection or application of accounting principles.

The Committee shall also review and discuss with the independent auditor those matters required to be discussed by Statement on Auditing Standards (SAS) No. 61, "*Communication with Audit Committees*," (AICPA, *Professional*

*Standards*, vol.1, AU sec. 380), as amended, related to the conduct of the audit, including but not limited to:

- a) serious problems or difficulties encountered in dealing with management that relate to the performance of the audit;
- b) any restrictions on the scope of activities or access to requested information;
- c) any significant disagreements with management; and
- d) any other material communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences.

In addition, the Committee shall review with the independent auditor any audit problems or difficulties and management's response to any communications and ensure that a public announcement of the Corporation's receipt of an audit opinion that contains a going concern qualification is made promptly.

*ii. Proxy Statement*

The Committee shall prepare the report that SEC rules require to be included in the Corporation's annual proxy statement.

*iii. Public Filings*

The Committee shall review with management and the independent auditor the Corporation's annual audited financial statements, and quarterly financial statements, including the Corporation's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations," prior to the filing of the Corporation's Form 10-K and Form 10-Q.

Based on such review and discussion, the Committee shall make a determination whether to recommend to the Board that the annual audited financial statements be included in the Corporation's Form 10-K.

The Committee shall also review, at least quarterly, with the Chief Executive Officer, the Chief Financial Officer, the Chief Compliance Officer and the General Counsel, the Corporation's disclosure controls and procedures and management's conclusions about the effectiveness of such disclosure controls and procedures, including any significant deficiencies in, or material non-compliance with, such controls and procedures.

*iv. Earnings Press Releases*

The Committee shall review and discuss with management, the Corporation's earnings press releases as well as the types of financial information periodically provided to analysts and rating agencies. Such discussion may be done generally (consisting of discussing the types of information to be disclosed and the types of presentations to be made).

*h. Risk Assessment*

The Committee shall review and discuss with management the Corporation's major financial risk exposures and the steps management has taken to monitor and control such exposures, including the Corporation's policies and practices with respect to risk assessment and risk management.

*i. Compliance*

*i. Selection of Chief Compliance Officer*

The Committee shall review with management the designation of a person to serve as the Corporation's Chief Compliance Officer, who shall meet the standards for such set forth in Rule 38(a), promulgated under the 1940 Act. The Committee shall serve as a primary point of contact for the Chief Compliance officer with regard to the Board-related functions of such position.

*ii. Code of Ethics and Personal Investments Code*

The Committee shall monitor the Corporation's Code of Ethics and Personal Investments Code (the "Code of Ethics"), especially as the Code of Ethics relates to conflicts of interest, related party transactions and illegal acts and shall make recommendations to the Board for changes in the Code of Ethics when appropriate. The Committee shall also review the process for communicating the Code of Ethics to employees and monitoring compliance therewith, including the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance.

The Committee shall review at least annually a summary of employees' compliance with the Code of Ethics and shall be responsible for determining whether and on what terms to grant to any executive officer a waiver from the Code of Ethics.

*iii. Handling of Complaints*

The Committee shall establish procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters and for the confidential,

anonymous submission by employees or others of concerns regarding questionable accounting or auditing matters and shall review any such complaints and submissions.

j. Review of Legal and Regulatory Compliance

The Committee shall meet periodically, and may request to meet separately, with the Chief Compliance Officer, the General Counsel and other appropriate legal staff of the Corporation to review the Corporation's compliance with applicable law and listing standards, including laws and regulations applicable to the Corporation as a regulated investment company and a business development company, and any other legal matters that may have a material impact on the financial statements or the Corporation's compliance policies.

k. Review of Certain Transactions with Directors and Related Parties

The Committee shall review periodically, but no less frequently than annually, a summary of the Corporation's transactions with directors and executive officers of the Corporation and with firms that employ directors, as well as any other material related party transactions, for the purpose of determining whether to recommend to the disinterested members of the Board that the transactions are fair, reasonable and within Corporation policy, and should be ratified and approved.

l. Review of Executive Expense Policies and Payments

The Committee shall review periodically the Corporation's policies with regard to the reimbursement of expenses incurred by the Corporation's senior officers and directors and, at least annually, a report from the internal auditor about adherence to such policies.

m. Annual Review of Committee Performance and Charter

At least annually, the Committee shall evaluate its own performance and the adequacy of this charter and report to the Board on such evaluation and any suggested changes to this charter.