

October 26, 2017

*These illustrative reports conform to the requirements of AT-C section 315 and are applicable when a practitioner expresses an opinion on management's assertion about compliance with Rule 204-2(b) and certain provisions of Rule 206(4)-2 of the Investment Advisers Act of 1940 and management's assertion accompanies the report, or when the practitioner expresses an opinion on the company's compliance with Rule 204-2(b) and certain provisions of Rule 206(4)-2 of the Investment Advisers Act of 1940, respectively. Paragraph .79 of AT-C section 205, Examination Engagements (AICPA, Professional Standards), states that if the practitioner has concluded that conditions exist that, individually or in combination, result in one or more material misstatements based on the criteria, the practitioner should modify the opinion and express a qualified or adverse opinion directly on the subject matter, not on the assertion, even when the assertion acknowledges the misstatement.*

*On September 9, 2010, the staff of the Division of Investment Management prepared responses to questions about the rule 206(4)-2, the "custody rule" under the Investment Advisers Act of 1940. One of the responses contained a link to this page and referred to an illustrative surprise examination report to reflect the reporting specified in the guidance for accountants. The reports currently presented on this AICPA page have been updated to reflect Statement on Standards for Attestation Engagements No. 18, Attestation Standards: Clarification and Recodification, issued September 2016. The AT sections in AICPA Professional Standards remained effective through April 2017, by which time substantially all engagements for which the AT sections were still effective were expected to be completed.*

## **Illustrative Report of Independent Accountant on Examinations of Securities Pursuant to Rule 206(4)-2 (Report on Management's Assertion) and Management's Assertion**

### **Report of Independent Accountant**

[To the Board of Directors<sup>fn 65</sup> of  
XYZ Investment Advisers, Inc.]

We have examined management's assertion, included in the accompanying Management Statement Regarding Compliance with Certain Provisions of the Investment Advisers Act of 1940, that [XYZ Investment Advisers, Inc.] (the Company) complied with paragraph (a)(1) of Rule 206(4)-2 of the Investment Advisers Act of 1940 (the Act) as of [examination date] and complied with Rule 204-2(b) of the Act during the period from [prior examination date]<sup>fn 66</sup> to [examination date].<sup>fn 67</sup> Management is responsible for its assertion about

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<sup>fn 65</sup> If no board of directors exists, identify the equivalent body with oversight responsibility.

<sup>fn 66</sup> In accordance with Question IV.5 of *Staff Responses to Questions About the Custody Rule*, when the investment adviser becomes subject to the surprise examination requirement for the first time, the accountant should report on the investment adviser's compliance with Rule 204-2(b) for a period beginning no later than the date that the adviser became subject to the surprise examination requirement through the examination date.

<sup>fn 67</sup> This date should be the same as-of date as in the accompanying Management Statement Regarding Compliance.

compliance with paragraph (a)(1) of Rule 206(4)-2 and Rule 204-2(b) of the Act (the specified requirements). Our responsibility is to express an opinion on management's assertion about the Company's compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether management's assertion about compliance with the specified requirements is fairly stated, in all material respects. An examination involves performing procedures to obtain evidence about whether management's assertion is fairly stated in all material respects. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of management's assertion, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

*[Include a description of significant inherent limitations, if any, associated with the measurement or evaluation of the subject matter against the criteria.]*

Included among our procedures were the following tests which were performed for a sample of client accounts as of *[examination date]*, which is a date we selected without prior notice to management: *[provide a brief description and itemize all that apply]*

- Reading contract provisions with qualified custodians;<sup>fn 68</sup>
- Count and inspection of securities located in the vault of the Company in *[location]* or in *[location]* of *[persons associated with the Company]*;
- Confirmation of cash and securities held by qualified custodians either under the client's name or in the name of the Company as agent or trustee for clients;
- *[Where a qualified custodian is either the adviser or a person related to the adviser]* For those client funds and securities maintained by the Company *[or a related person]* as a qualified custodian, obtaining and considering the most recent internal control report required to be obtained by the Company under Rule 206(4)-2(a)(6);
- Confirmation of privately offered securities, as defined in Rule 206(4)-2(b)(2), held directly by the Company with the issuer of or counterparty to the security *[or, where replies were not received, alternative procedures]*;

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<sup>fn 68</sup> The practitioner should assess the need for this procedure based on the extent of the relationship between the investment adviser and qualified custodian or whether other procedures provide sufficient evidence to express an opinion on management's assertion about compliance with paragraph (a)(1) of Rule 206(4)-2.

- Reconciliation of cash and securities counted or confirmed to the books and records of client accounts maintained by the Company;
- Confirmation with clients<sup>fn 69</sup> of the detail of cash and securities held as of the date of examination by the Company on behalf of such clients and contributions and withdrawals of cash and securities to and from the account [*or for those confirmations not received, alternative procedures*],<sup>fn 70</sup> and reconciliation of confirmations received [*and other evidence obtained*] to the Company's books and records;
- Confirmation with clients of accounts that were closed or for which funds were returned to the clients;
- Confirmation with clients of accounts having a zero balance as of the date of the examination.

Our examination does not provide a legal determination on the Company's compliance with specified requirements, including the Company's identification of "securities" as defined by Section 202(a)(18) of the Act and its determination of "custody" as defined by Rule 206(4)-2(d)(2) under the Act. It is the responsibility of [*XYZ Investment Advisers, Inc.*] to determine its investment advisory clients under the Act.

In our opinion, management's assertion that [*XYZ Investment Advisers, Inc.*] complied with the requirements of paragraph (a)(1) of Rule 206(4)-2 of the Investment Advisers Act of 1940 as of [*examination date*], and has complied with Rule 204-2(b) of the Act during the period from [*prior examination date*] through [*examination date*], is fairly stated, in all material respects.

This report is intended solely for the information and use of management and the Board of Directors of [*XYZ Investment Advisers, Inc.*] and the Securities and Exchange Commission and is not intended to be, and should not be, used by anyone other than the specified parties.

[Independent Accountant (signed)]  
 [Anytown, USA]  
 [Date]

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<sup>fn 69</sup> When performing a surprise examination for an adviser to a pooled investment vehicle or vehicles, the practitioner should add *and investors in pooled investment vehicles*.

<sup>fn 70</sup> The report should delineate procedures performed for (a) confirmation replies received with exception and (b) confirmation requests for which replies were not received. The presentation of procedures performed should be sufficiently specific for the reader to understand the nature and extent of the procedures performed.

## Management Statement Regarding Compliance With Certain Provisions of the Investment Advisers Act of 1940<sup>fn 71</sup>

We, as members of management of [XYZ Investment Advisers, Inc.] (the Company) are responsible for complying with the requirements of Rule 204-2(b), "Books and Records to be Maintained by Investment Advisers," and Rule 206(4)-2, "Custody of Funds or Securities of Clients by Investment Advisers," of the Investment Advisers Act of 1940 (the Act). We are also responsible for establishing and maintaining effective internal controls over compliance with the requirements of Rule 204-2(b) and Rule 206(4)-2. We have performed an evaluation that includes all relevant matters of the Company's compliance with paragraph (a)(1) of Rule 206(4)-2 of the Act as of [examination date] and compliance with Rule 204-2(b) of the Act during the period from [prior examination date] to [examination date]. Based on this evaluation, we assert that the Company complied with the Act as described below:

Rule 204-2(b) under the Act requires that an investment adviser who has custody or possession of funds and/or securities of any client must record all transactions for such clients in a journal and in separate ledger accounts for each client and must maintain copies of confirmations of all transactions in such accounts and a position record for each security in which a client has an interest. In addition, paragraph (1) of Rule 206(4)-2(a) provides, in general, that it shall constitute a fraudulent, deceptive, or manipulative act or practice for any investment adviser to have custody of client funds or securities unless a qualified custodian maintains those funds and securities (i) in a separate account for each client under that client's name; or (ii) in accounts that contain only clients' funds and securities, under the investment adviser's name as agent or trustee for the clients.

*[If applicable: Paragraph (a)(6) of Rule 206(4)-2 provides, in general, that an investment adviser that maintains, or has custody because a related person maintains, client funds or securities pursuant to Rule 206(4)-2 as a qualified custodian in connection with advisory services provided to clients must obtain, or receive from its related person, no less frequently than once each calendar year, a written internal control report prepared by an independent public accountant. The internal control report must include an opinion of an independent public accountant as to whether controls have been placed in operation as of a specific date, and are suitably designed and are operating effectively to meet control objectives relating to custodial services, including the safeguarding of funds and securities held by either the adviser or a related person on behalf of the advisory clients, during the year. Also, as part of the internal control report, the*

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<sup>fn 71</sup> Alternatively, management's assertion may be included in a representation letter. Accordingly, the auditor's report should be modified to reflect this alternative, in accordance with [AT-C section 105](#), *Concepts Common to All Attestation Engagements* (AICPA, Professional Standards).

*independent public accountant must verify that the funds and securities are reconciled to a custodian other than the adviser or the adviser's related person.]*

For purposes of this assertion, "security" has the meaning ascribed to it by Section 202(a)(18) of the Act, and "custody" has the meaning ascribed by Rule 206(4)-2(d)(2) under the Act. It is our responsibility to determine our investment advisory clients under the Act. The clients, and client funds and securities, to which this assertion applies, have been determined in a manner consistent with the manner in which we report clients for which custody of funds and securities exists under Items 9A(2) and 9B(2) of Form ADV, if the responses to those Items were prepared as of the date of this assertion.

[XYZ Investment Advisers, Inc.]

By:

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[Name]  
Chief Financial Officer

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[Date]

## Illustrative Report of Independent Accountant on Examinations of Securities Pursuant to Rule 206(4)-2 (Direct Report on Management's Compliance)

### Report of Independent Accountant

[To the Board of Directors<sup>fn 72</sup> of XYZ Investment Advisers, Inc.]

We have examined the compliance of [XYZ Investment Advisers, Inc.] (the Company) with paragraph (a)(1) of Rule 206(4)-2 of the Investment Advisers Act of 1940 (the Act) as of [examination date] and with Rule 204-2(b) of the Act during the period from [prior examination date]<sup>fn 73</sup> to [examination date]. Management of the Company is responsible for the Company's compliance with paragraph (a)(1) of Rule 206(4)-2 and Rule 204-2(b) of the Act (the specified requirements). Our responsibility is to express an opinion on the Company's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether XYZ Company complied, in all material respects, with the specified requirements. An examination involves performing procedures to obtain evidence about whether XYZ Company complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Included among our procedures were the following tests which were performed for a sample of client accounts as of [examination date], which is a date we selected without prior notice to management: [provide a brief description and itemize all that apply]

- Reading contract provisions with qualified custodians;<sup>fn 74</sup>
- Count and inspection of securities located in the vault of the Company in [location], or in [location] of [persons associated with the Company];

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<sup>fn 72</sup> If no board of directors exists, identify the equivalent body with oversight responsibility.

<sup>fn 73</sup> In accordance with Question IV.5 of *Staff Responses to Questions About the Custody Rule*, when the investment adviser becomes subject to the surprise examination requirement for the first time, the accountant should report on the investment adviser's compliance with Rule 204-2(b) for a period beginning no later than the date that the adviser became subject to the surprise examination requirement through the examination date.

<sup>fn 74</sup> The practitioner should assess the need for this procedure based on the extent of the relationship between the investment adviser and qualified custodian or whether other procedures provide sufficient evidence to express an opinion on compliance with paragraph (a)(1) of Rule 206(4)-2.

- Confirmation of cash and securities held by qualified custodians either under the client's name or in the name of the Company as agent or trustee for clients;
- [*Where a qualified custodian is either the adviser or a person related to the adviser*] For those client funds and securities maintained by the Company [*or a related person*] as a qualified custodian, obtaining and considering the most recent internal control report required to be obtained by the Company under Rule 206(4)-2(a)(6);
- Confirmation of privately offered securities, as defined in Rule 206(4)-2(b)(2), held directly by the Company with the issuer of or counterparty to the security [*or, where replies were not received, alternative procedures*];
- Reconciliation of cash and securities counted or confirmed to the books and records of client accounts maintained by the Company;
- Confirmation with clients<sup>fn 75</sup> of the detail of cash and securities held as of the date of examination by the Company on behalf of such clients and contributions and withdrawals of cash and securities to and from the account [*or for those confirmations not received, alternative procedures*]<sup>fn 76</sup> and reconciliation of confirmations received [*and other evidence obtained*] to the Company's books and records;
- Confirmation with clients of accounts that were closed or for which funds were returned to the clients;
- Confirmation with clients of accounts having a zero balance as of the date of the examination.

Our examination does not provide a legal determination on the Company's compliance with specified requirements, including the Company's identification of "securities" as defined by Section 202(a)(18) of the Act and its determination of "custody" as defined by Rule 206(4)-2(d)(2) under the Act. It is the responsibility of [*XYZ Investment Advisers, Inc.*] to determine its investment advisory clients under the Act.

In our opinion, [*XYZ Investment Advisers, Inc.*] complied, in all material respects, with the requirements of paragraph (a)(1) of Rule 206(4)-2 under the Investment Advisers Act of 1940 as of [*examination date*] and has complied with Rule 204-2(b) under the Act for the period from [*prior examination date*] through [*examination date*].

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<sup>fn 75</sup> When performing a surprise examination for an adviser to a pooled investment vehicle or vehicles, the practitioner should add "*and investors in pooled investment vehicles.*"

<sup>fn 76</sup> The report should delineate procedures performed for (a) confirmation replies received with exception, and (b) confirmation requests for which replies were not received. The presentation of procedures performed should be sufficiently specific for the reader to understand the nature and extent of the procedures performed.

This report is intended solely for the information and use of management and the Board of Directors of [*XYZ Investment Advisers, Inc.*] and the Securities and Exchange Commission<sup>fn 77</sup> and is not intended to be and should not be used by anyone other than these specified parties.

[Independent Accountant (signed)]  
[Anytown, USA]  
[Date]

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<sup>fn 77</sup> If applicable, also specify state securities administrators with which the report is required to be filed.