

July 15, 2009

With regards to the proposed changes to Rule 206(4)-2 to require all registered investment advisers submit to an annual surprise examination of client assets by an independent public accountant, and the Commission's request for input as to possible alternatives to such examinations the following comments are submitted for consideration.

In many instances it is difficult to physically exam or account for stock record long positions held by individual customers. Most stocks at DTCC are maintained in aggregated CUSIP level positions by Custodian firm, not in each customer name. That detail is normally only on the Custodian's stock record ledger. Mutual funds have other characteristics. Even though they are a direct registration security many positions do not show up on the Custodian's books as they were sold direct " Check & Application" and the trade was not posted by the Custodian. Still others are in Sub-account systems that maintain customer detail rather than the Fund companies and their Transfer Agents that only hold aggregated omnibus positions. In addition, the almost \$4 Trillion in Money Market Funds are also held in omnibus positions with individual customer balances maintained on subsidiary systems by the Custodian firm. Who independently verifies and attests that the customer account balances reconcile to the MMF companies omnibus totals? Book entry securities like Treasuries and Options present other problems in verifying individual customer level positions.

The Financial Services Industry has collectively developed private sector solutions to the aforementioned challenges with a competitive system of applications to aggregate individual customer positions into a single data base to support GIPS compliant portfolios and the related fee-based management process. With these platforms, customers generally have view-only web access to their positions, balances and activity history, that empowers them to independently verify their holdings and transactions. Every customer should be aware of this feature and be encouraged to use it.

A partial list of these platforms include:

Advent	Fortigent
AdvisorPort	Investigo
AdvisorCHANNEL	Orion Advisor Services
Albridge	Portfolio Center
Black Diamond Portfolio Reporting	

These and others utilize powerful data aggregation tools to summarize customer level positions for statements, portfolios and management fee accounting. They have developed interface level connectivity to pull data from Custodians, DTCC/NSCC Networking, DAZL, Fanmail, and many other sources to provide a high level customer centric view of security holdings. To a lesser extent, spreadsheets are used to accomplish this task; however, these are more prone to manual error and possible manipulation. The point is, that technology exists to link these data aggregation engines to provide reasonable assurance that the customer positions presented in monthly statements, portfolio accounts and fee calculations do, in fact, exist. A "triangulation" method could be used on an ongoing basis to reconcile these customer level positions, balances and activity. Exception based error reporting could assist in mitigating the independent annual surprise examination cost and work load.

The simple reality is that every Ponzi scheme or other fraudulent act that misappropriates customer assets relies on the ability to control the customer's view of trade confirmations, monthly statements and portfolio presentations, plus less than transparent calculations of margin interest, performance based fees, money market yields, and the like. Perhaps a process can be adopted to guarantee the integrity of the trade execution confirmation process such that "certified" confirms can be sourced from a global independent organization, like DTCC, direct to customers and their trusted advisors. That would return control to the customer to verify subsequent statements, portfolios. etc. Such a large scale program would be costly to build and maintain, but it would be effective and could perhaps be used to reduce the almost \$180 Million estimated annual cost of this proposed amendment.

Sincerely,

Michael E. Ford  
Consultant