Wellesley Asset Management, LLC is a small SEC-registered Investment Advisor. We invest in publicly traded equities for high net worth individuals, with investment discretion. Our only custody of client assets is our authorization to deduct management fees from client accounts.

We fully endorse SEC efforts to safeguard client assets, particularly in the wake of the shocking revelations not just of the Madoff scandal, but also of the many other incidences of fraud which the SEC has uncovered in the past several months.

HOWEVER, we respectfully request that the "surprise audit" proposal be dropped, at least in certain circumstances, due to the minimal benefit and high cost. Anecdotally, we believe that many Investment Advisors have custody and reporting practices similar to that of Wellesley Asset Management, specifically:

-Custody of client assets is solely due to the ability to deduct management fees.
-All client assets are held at large, third party broker-dealers (in our case, Fidelity), in individual brokerage accounts owned by the client.
-Clients receive monthly statements directly from the broker-dealer, reflecting all transactions for the month and all positions held. The positions are valued by the broker-dealer.
-Clients may view their accounts 24 hours per day, 7 days per week on the internet, including transaction history, positions, prior monthly statements, and gains-losses, among many other items of information.
-All client assets are in publicly traded securities, with adequate trading to enable valid market values.
-Additional reports are provided to the clients by the Investment Advisor each quarter, based upon data provided by the broker-dealer (in our case, data is transmitted from Fidelity to Advent Corporation to Wellesley Asset Management, using Advent's Axys software. Wellesley Asset Management is then able to create various management reports, using the Fidelity data).

As stated above, we believe a large number of Investment Advisors have reporting practices similar to those described above. In these cases, surprise audits would appear to have no value in safeguarding client assets. Clients can easily view their accounts whenever they please and can easily compare the account balance provided by the investment adviser with the account balance provided continuously by the broker-dealer. Requiring an independent auditor to perform this task appears to be a wasteful exercise, generating inconvenience and expense, but no true benefit.

We recommend that the SEC focus its efforts in this important area on situations in which the Investment Advisor is the only source of information to clients on the value of their assets.

Thank you for the opportunity to submit our comments on this proposal.

Respectfully submitted,

Philip Laughlin
Managing Member and CCO