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For IMMEDIATE Release Wednesday, October 28, 1959

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C.

SECURITIES EXCHANGE ACT OF 1934

Release No. 6102

ACCOUNTING SERIES

Release No. 83

AMENDMENT TO MINIMUM AUDIT REQUIREMENTS PRESCRIBED IN
FORM X-17A-5 UNDER THE SECURITIES EXCHANGE ACT OF 1934

On September 18, 1959, in Securities Exchange Act of 1934 Release No. 6072 the Securities and Exchange Commission announced that it had under consideration a proposed amendment to the Note to Item 5 of the Minimum Audit Requirements to be followed by independent accountants in preparing Form X-17A-5 reports of financial condition of members, brokers and dealers under Rule 17a-5 under the Securities Exchange Act of 1934. The Commission has considered all of the views and comments received on the proposal and has adopted the amendment in the form stated below.

Item 5 of the Minimum Audit Requirements provides that the independent accountant shall request written confirmation of certain accounts, including customers' accounts, of the member, broker or dealer. The amendment to the Note to Item 5 of the Minimum Audit Requirements of Form X-17A-5 specifically permits the certifying accountant in auditing the books and records of member firms of national securities exchanges who originate Monthly Investment Plan accounts to omit, under specified conditions, written confirmation of the M.I.P. accounts of the originating member firm required by Item 5 when in his judgment such procedure is not necessary. The amendment does not relieve the certifying accountant of the responsibility for requesting written confirmation of any other accounts of M.I.P. customers, or for a satisfactory verification of the M.I.P. accounts of the originating broker, or for the review of the safeguards of such accounts, or for the responsibility for performing such other auditing procedures as are ordinarily performed in the audit of the customers' accounts of a broker-dealer.

The New York Stock Exchange in its minimum audit requirements specifies that each odd-lot firm which acts as custodian of securities owned by M.I.P. customers have an audit on a surprise basis by an independent public accountant made at least once in each calendar year. Audits of the originating member firms must also be made on a surprise basis each calendar year. The Committee on Audits of Securities Brokers and Dealers of the American Institute of Certified Public Accountants feels, and the Exchange agrees, that the duplication of the confirmation procedures has entailed an audit expense which does not appear to be justified and that duplicate confirmation is confusing to the customers. Because of this confusion and in view of the internal control inherent in M.I.P. accounting, the

committee recommended that under certain conditions the independent public accountants concerned with the audits of the respective originating member firms (commission houses) be relieved of the procedure for requesting written confirmation of M.I.P. accounts to the extent that, in their judgment, such procedure is not necessary. The conditions specified by the committee are:

- "1. The independent public accountants who have been retained as auditors for the odd-lot houses will select the same audit date for a surprise examination of the respective odd-lot houses. (We understand this is now being done.) This will ensure that those customers having M.I.P. accounts with both odd-lot houses will receive requests for confirmations of their accounts as of the same date.
- "2. The odd-lot houses, at the time of the examination by independent public accountants, will prepare listings for each commission house of the M.I.P. accounts that they are maintaining for the commission firms. This will enable the commission houses and the odd-lot houses to establish a procedure whereby not only will confirmations of the customers' accounts be requested as of one audit date but, as of the same audit date, confirmations will be requested from the commission houses as to the positions maintained by the custodians.
- "3. The independent public accountants who have been retained as auditors for the commission houses will satisfy themselves that the listings prepared by the odd-lot houses, of funds and securities held for M.I.P. customers at the time of the examination of the odd-lot houses by independent public accountants, have been reconciled with the records of the commission houses."

Statutory Basis and Text of Amendment

The Securities and Exchange Commission, acting pursuant to the provisions of the Securities Exchange Act of 1934, particularly Sections 17(a) and 23(a) thereof, and deeming such action necessary and appropriate in the public interest and for the protection of investors and necessary for the execution of its functions under the Act, hereby amends the Note to Item 5 of the Minimum Audit Requirements of Form X-17A-5 as stated below. The Commission finds that such action has the effect of relieving restriction and granting exemption and that under the provisions of Section 4(c) of the Administrative Procedure Act it may be and is hereby declared effective Wednesday, October 28, 1959.

The text of the Note to Item 5, as amended, is as follows:

"Compliance with requirements for obtaining written confirmation with respect to the above accounts shall be deemed to have been made if requests for confirmation have been mailed by the independent public accountant in an envelope bearing his own return address and second requests are similarly mailed to those not replying to the first requests, together with such auditing procedures as may be necessary; provided, however, that with respect to periodic investment plans sponsored by member firms of a national securities exchange, whose members are exempted from Rule 15c3-1 by paragraph (b)(2) thereof, the independent public accountant examining the financial statements of the originating member firm may omit direct written confirmation of such plan accounts with customers when, in his judgment, such procedures are not necessary, if (1) the originating member firm does not receive or hold securities belonging to such plan accounts and does not receive or hold funds for such accounts, except the initial payment which is promptly transmitted to the custodian; (2) the custodian is a member firm of such national securities exchange and files certified reports complying with Rule 17a-5 in connection with which the customers' accounts are confirmed by an independent public accountant; and (3) funds and securities held by the custodian for each such customer's account are reconciled with the records of the originating member firm as of the date of the most recent audit of the custodian."

By the Commission.

Orval L. DuBois
Secretary

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WASHINGTON 25, D. C.

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