
American Institute of Certified Public Accountants. Securities Industry Year 2000 Agreed-Upon Procedures Task Force

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Issued Under the Authority of the Auditing Standards Board
NOTE

This Statement of Position presents the recommendations of the AICPA's Securities Industry Year 2000 Agreed-Upon Procedures Task Force regarding the application of Statements on Standards for Attestation Engagements to agreed-upon procedures attestation engagements performed pursuant to rules 17a–5 and 17Ad–18 of the Securities Exchange Act of 1934, and Advisories No. 17–98 and No. 42–98 of the Commodity Futures Trading Commission. The Auditing Standards Board has found the recommendations in this Statement of Position to be consistent with existing standards covered by Rule 202 of the AICPA Code of Professional Conduct. AICPA members should be prepared to justify departures from the recommendations in this Statement of Position.
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Introduction and Background

1. The Securities and Exchange Commission (SEC) issued rules under the Securities Exchange Act of 1934 requiring reporting of specified matters with respect to year 2000 readiness by broker-dealers and certain transfer agents. These rules also require broker-dealers meeting specific thresholds and certain transfer agents to file a report prepared by an independent public accountant regarding the broker-dealer or transfer agent’s process for addressing year 2000 problems as of March 15, 1999. In SEC Releases No. 34–40608 and 34–40587, the SEC indicated that an agreed-upon procedures engagement performed in accordance with this Statement of Position (SOP) satisfies the SEC’s regulatory requirements.

2. The Commodity Futures Trading Commission (CFTC) issued Advisory No. 17–98 indicating that a year 2000 problem, as defined therein, constitutes a material inadequacy within the meaning of CFTC Regulation 1.16, thus triggering certain notification requirements applicable to CFTC registrants.

and their accountants. In Advisory No. 42–98, the CFTC advised its registrants and their accountants that the performance by an accountant of an agreed-upon procedures attestation engagement meeting the requirements of this SOP will satisfy the CFTC's requirements with respect to the accountant's responsibility for the identification of material inadequacies resulting from a year 2000 problem. As a result of the connection between year 2000 problems and the identification and reporting of material inadequacies, as set forth in CFTC Advisory No. 17–98, the auditor of the financial statements of a CFTC-regulated entity should be the accountant engaged to perform the agreed-upon procedures attestation engagement pursuant to this SOP. In performing the audit of the CFTC-regulated entity's financial statements, the CFTC does not require the auditor to perform procedures beyond the agreed-upon procedures set forth in this SOP in order to detect material inadequacies resulting from a year 2000 problem.

3. Paragraphs 5 through 9 of this SOP contain a discussion of the relevant requirements of SEC rules 17a–5 and 17Ad–18 and CFTC Advisories No. 17–98 and No. 42–98. The practitioner should refer to the original rules and advisories for a complete understanding of their requirements.

**Applicability**

4. This SOP was developed to provide practitioners with guidance in performing year 2000 agreed-upon procedures at-

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2. As discussed in CFTC Advisory No. 42–98, CFTC registrants meeting specified criteria are exempt from the requirement to file the accountant's agreed-upon procedures report that is the subject of this SOP. It is important to note that the exemption for any registrant may be revoked at the discretion of either the CFTC or the registrant's designated self-regulatory organization. The criteria specified in CFTC No. 42–98 (all of which must be met) are as follows.
   a. The entity is not a clearing member of an exchange.
   b. The entity carries no funds, accounts or positions for customers.
   c. The entity has no mission-critical systems that interface with other registrants or major market participants.
   d. The entity's designated self-regulatory organization has not provided notice to it that its exemption has been revoked. Also, the CFTC's Division of Trading and Markets has not notified the entity that it will be required to file the agreed-upon procedures report that is the subject of this SOP.

3. See CFTC Advisory No. 17–98 and paragraph 12 of this SOP for the CFTC's definition of year 2000 problem.
testation engagements to meet the requirements of SEC rules 17a–5 and 17Ad–18 and CFTC Advisories No. 17–98 and No. 42–98. Practitioners should note that the engagements described in this SOP are designed only to satisfy the regulatory requirements of SEC rules 17a–5 and 17Ad–18 and CFTC Advisories No. 17–98 and No. 42–98. The procedures, as set forth in the reports illustrated in appendixes A to D herein, are neither appropriate nor intended for use in other engagements.

SEC Rules

5. Rule 17a–5 requires broker-dealers with minimum net capital requirements of $5,000 or greater to file with the SEC and the broker-dealer’s designated examining authority (DEA) two separate reports regarding their year 2000 readiness. Similarly, rule 17Ad–18 requires certain registered nonbank transfer agents to file with the SEC two separate reports regarding their year 2000 readiness. The first report, which addresses the broker-dealer or transfer agent’s year 2000 readiness as of July 15, 1998, was to be filed with the SEC and DEA by August 31, 1998. The second report, which addresses year 2000 readiness as of March 15, 1999, is to be filed with the SEC and DEA by April 30, 1999. Each report is divided into Part I and Part II (jointly referred to as Form BD-Y2K for broker-dealers and Form TA-Y2K for transfer agents). Part I, which is in a “check-the-box” style, is required to be filed by all entities subject to the reporting rules. Part II requires a narrative discussion of specified aspects of the broker-dealer or transfer agent’s year 2000 efforts. Part II is applicable only to broker-dealers with minimum net capital requirement of $100,000 or greater as of March 15, 1999, and transfer agents that do not qualify for the exemption in paragraph (d) of rule 17Ad–13 under the Securities Exchange Act of 1934.

6. With respect to the report due on April 30, 1999, addressing year 2000 readiness as of March 15, 1999, the SEC requires entities completing Part II to file a report prepared by an independent public accountant regarding the entity’s process

4. Pursuant to rule 15c3–1(a)(2).
for addressing year 2000 problems. In rules 17a–5 and 17Ad–18, the SEC states that only reports on engagements performed in accordance with standards issued by a national organization that is responsible for promulgating authoritative accounting and auditing standards will meet its regulatory requirements. In Releases No. 34–40608 and 34–40587, the SEC indicated that the procedures set forth in this SOP meet its regulatory requirements. The accountant's agreed-upon procedures report is to be filed with the SEC and the broker-dealer's DEA by April 30, 1999. Although the agreed-upon procedures report is restricted to the use of certain specified parties, it will be accessible by the public.

**CFTC Rules**

7. As indicated in the preceding, the CFTC has advised its registrants and their accountants that the performance by an accountant of an agreed-upon procedures attestation engagement in accordance with this SOP will satisfy the CFTC's regulatory requirements with respect to material inadequacies resulting from a year 2000 problem as set forth in Advisory No. 17–98.\(^6\)

8. The CFTC does not require year 2000 readiness reports from its registrants; therefore, the practitioner will need to obtain from CFTC-regulated entities an assertion in the form of a representation about the absence of a material inadequacy relating to a year 2000 problem as such is defined in Advisory No. 17–98. The agreed-upon procedures will be performed on the subject matter of that assertion. (The assertion is discussed in paragraph 20 herein.)

9. In Advisory No. 42–98, the CFTC sets forth the requirements for the timing of the agreed-upon procedures attestation engagements. The general requirements are as follows.

   a. For entities subject to Advisories No. 17–98 and No. 42–98 that also are required to engage an accountant to perform an agreed-upon procedures engagement relating to Part II of Form BD-Y2K pursuant to SEC rule 17a–5, the agreed-upon procedures should be

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6. See footnote number 2.
performed on the subject matter of an assertion as of March 15, 1999. The accountant's agreed-upon procedures report is to be filed with the CFTC and the entity's designated self-regulatory organization by April 30, 1999.\footnote{These dates correspond with the requirements of rule 17a-5. See discussion in paragraphs 28 and 29 herein regarding optional combined reporting.}

b. For entities other than those in item a above that are subject to Advisories No. 17-98 and No. 42-98 and have fiscal years ending on or after February 28, 1998, but before October 1, 1998, the agreed-upon procedures should be performed on an assertion made as of a date selected by the entity between and including November 15, 1998, and December 15, 1998. The accountant's agreed-upon procedures report is to be filed with the CFTC and the entity's designated self-regulatory organization by December 31, 1998.

c. For entities other than those in item a above that are subject to Advisories No. 17-98 and No. 42-98 and have fiscal years ending on or after October 1, 1998, but before February 28, 1999, the agreed-upon procedures should be performed on an assertion as of the fiscal year-end. The accountant's agreed-upon procedures report is to be filed with the CFTC and the entity's designated self-regulatory organization within ninety days after the fiscal year-end.

**Definition of "Year 2000 Problem"

10. SEC rules 17a-5 and 17Ad-18 and CFTC Advisory No. 17-98 include descriptions of the “year 2000 problem” to be used for purposes of reporting pursuant to their requirements; however, those descriptions differ.

11. SEC rule 17a-5(e)(5)(i) states the following.

   [T]he term [y]ear 2000 [p]roblem shall include problems arising from (a) computer software incorrectly reading the date “01/01/00” as being the year 1900 or another incorrect year; (b) computer software incorrectly identifying...
a date in the Year 1999 or any year thereafter; (c) computer software failing to detect that the Year 2000 is a leap year; or (d) any other computer software error that is directly or indirectly caused by the problems set forth in [(a) through (c)].

12. CFTC Advisory No. 17-98 states that “a 'year 2000 problem', for purposes of [the] Advisory, is a failure to address year 2000 mission-critical issues in an adequate and timely manner....” The Advisory further describes the year 2000 problem and what it considers “adequate and timely manner” as follows.

A “year 2000 problem” shall be deemed to exist if there is a material failure by an entity to meet the conditions set forth below. As used herein, the term “entity” refers to any registrant covered by the reporting or disclosure requirements enumerated [in the Advisory], and the term “system” refers to any mission-critical system and related facilities and infrastructure equipment.

Planning—The entity must have identified and evaluated its mission-critical systems for year 2000 compliance, identified those systems that need modification or replacement, and determined the scope of work necessary to achieve compliance. For systems that interface with third party systems, an entity must also have made appropriate inquiry of operators of the other third party systems and planned to participate in industry-wide testing. Testing results must be documented and reported to management. The extent and detail of any plan must be appropriate to the complexity of the entity's operations. The plan must include provision(s) for contingencies to deal with the possibility that problems might arise in achieving year 2000 compliance. The Commission notes that the Futures Industry Association is leading industry-wide year 2000 testing and also plans to issue guidance regarding contingency planning.

Scheduling—The entity must have identified the major steps involved in bringing each system into compliance and have established a schedule, including milestones, for accomplishing this task. The schedule must allow sufficient time for testing of new systems and system modifications prior to commencing year 2000 operations. The entity must be in compliance with its schedule. In the
event of slippage in meeting the original schedule, the entity must have established a new schedule.

Staffing—Top management of the entity must have assigned appropriate staff to carry out the plan. If the entity does not possess the appropriate staff resources, sufficient outside expertise must have been secured or otherwise be available on a contract basis.

Approval and Control—The entity must have a management process in place to approve and control the execution of the plan. The plan must be approved by the board of directors (or equivalent). Senior management must monitor and control execution of the plan and report progress to the board of directors.

**Applicable Professional Standards**

13. Agreed-upon procedures attestation engagements performed to meet the requirements of SEC rules 17a–5 and 17Ad–18 and CFTC Advisories No. 17–98 and No. 42–98 are to be performed in accordance with Statement on Standards for Attestation Engagements (SSAE) No. 4, *Agreed-Upon Procedures Engagements* (AICPA, *Professional Standards*, vol. 1, AT sec. 600). As described in SSAE No. 4, an agreed-upon procedures engagement is one in which a practitioner is engaged by a client to issue a report of findings based on specific procedures performed on the subject matter of an assertion. Not all of the provisions of SSAE No. 4 are discussed herein. Rather, this SOP includes guidance to assist the practitioner in the application of selected aspects of SSAE No. 4.

14. SSAE No. 4 (AT sec. 600.10), states that the practitioner may perform an agreed-upon procedures attestation engagement provided that, among other things, "(a) the practitioner and the specified users agree upon the procedures performed or to be performed by the practitioner; and (b) the specified users take responsibility for the sufficiency of the agreed-upon procedures for their purposes."

15. As discussed above, the SEC and CFTC have indicated that engagements performed in accordance with this SOP will satisfy the regulatory requirements of SEC rules 17a–5 and
17Ad–18 and CFTC Advisories No. 17–98 and No. 42–98, respectively. Therefore, the requirements of SSAE No. 4 (AT sec. 600.10) have been satisfied. For that reason, practitioners should not agree to alter the scope of the procedures set forth in the illustrative agreed-upon procedures reports that appear in the appendixes to this SOP.

16. The specified users of an accountant’s agreed-upon procedures report performed in accordance with this SOP should be limited to the following:

   a. The Board of Directors and management of the entity

   b. The SEC (if the entity is subject to rule 17a–5 or rule 17Ad–18)

   c. The self-regulatory organization designated to have examining authority pursuant to rule 17d–2 of the Securities Exchange Act of 1934 (if the entity is subject to rule 17a–5)

   d. The CFTC (if the entity is subject to CFTC Regulation 1.16 and Advisories No. 17–98 and No. 42–98)

   e. The self-regulatory organization designated to have examining responsibility pursuant to CFTC rule 1.52 (if the entity is subject to CFTC Regulation 1.16 and Advisories No. 17–98 and No. 42–98)

Establishing an Understanding With the Client

17. In accordance with SSAE No. 4 (AT sec. 600.12), the accountant should establish and document an understanding with the client regarding the services to be performed pursuant to this SOP. Such an understanding reduces the risk that the client may misinterpret the objectives and limitations of an agreed-upon procedures attestation engagement performed to meet the regulatory requirements of SEC rules 17a–5 and 17Ad–18 and CFTC Advisories No. 17–98 and No. 42–98. Such an understanding also reduces the risk that the client misunderstands its responsibilities, the responsibilities of other specified users, and the responsibilities of the practitioner.
Assertions

18. The applicable assertion, if this engagement is performed for a broker-dealer, is Parts I and II of Form BD-Y2K prepared and filed pursuant to the requirements of SEC rule 17a-5.

19. The applicable assertion, if this engagement is performed for a transfer agent, is Parts I and II of Form TA-Y2K prepared and filed pursuant to the requirements of SEC rule 17Ad-18.

20. For entities subject to CFTC Regulation 1.16 and Advisories No. 17-98 and No. 42-98, practitioners must obtain an assertion from management in the form of a representation, dated as described in CFTC Advisory No. 42-98 (see paragraph 9 of this SOP), regarding the absence of material inadequacies relating to year 2000 problems as such are defined in CFTC Advisory No. 17-98. The agreed-upon procedures will be performed on the subject matter of that assertion. The following illustrative language is appropriate for an assertion.

We confirm to the best of our knowledge and belief that as of [insert date], there were no material inadequacies relating to the year 2000 problem, as year 2000 problem is defined in the Commodity Futures Trading Commission's Advisory No. 17-98. Accordingly, we have nothing to report or disclose to the Commission pursuant to Advisory No. 17-98 or the applicable Commodity Futures Trading Commission rules.

Procedures to Be Performed

21. The agreed-upon procedures to be performed are directed toward the identification of selected characteristics of the process planned and implemented by each entity to assess, remediate, test and monitor the entity's year 2000 readiness. Thus, the agreed-upon procedures engagement provides no assurance as to whether an entity or the parties with which an entity does business will be year 2000 ready. For that reason the practitioner's agreed-upon procedures report should include the following disclaimer.

Our procedures also do not provide assurance that the entity is or will be year 2000 ready, that its year 2000 project
plans will be successful in whole or in part, or that parties with which the entity does business will be year 2000 ready.

22. The procedures to be performed in connection with the agreed-upon procedures attestation engagements contemplated in this SOP are included in the illustrative reports in appendixes A to D herein.\(^8\)

23. The procedures have been designed such that the findings resulting from the application of the procedures are to be expressed in a tabular format. The finding for each procedure should be reported as No Exception, Exception, or N/A for not applicable. Accordingly, if a procedure included in the illustrative reports in the appendices is not applicable to an entity for which an engagement is performed, the procedure should be marked N/A rather than deleted from the report. This format is intended to provide ease of review and aggregation of results by the specified users of the agreed-upon procedures reports.

24. If any portion of a procedure performed results in an exception, the entire finding should be reported as an exception. A brief factual explanation is to be provided by the practitioner for all exceptions in the report. Such explanation is intended to enable the specified users to understand the nature of the finding resulting in the exception. Examples of explanations for exceptions are as follows.

Exception Attributed to One Component of the Organization

This exception relates to items 2d and e in the illustrative reports in appendixes A to D of this SOP.

With respect to XYZ subsidiary, the year 2000 project plans do not include a process for identifying and the actual identification of third parties that the entity has determined to be significant in the context of the broker-dealer’s potential year 2000 problems. Further, with respect to XYZ subsidiary, the year 2000 project plans do not include a process for assessing the year 2000 readiness of significant third parties.

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8. The footnotes in the illustrative reports are intended to be included in reports issued pursuant to this SOP.
Exception Attributed to One Mission Critical System

This exception relates to item 2i in the illustrative reports in appendixes A to D of this SOP.

The entity has not determined a date by which a mission-critical system, the system used to assign values to fixed income portfolios, is expected to be year 2000 ready.

Pervasive Exception

These exceptions relate to items 2n to 2o in the illustrative reports in appendixes A to D of this SOP.

Item 2n—The entity's year 2000 project plans do not include a process to evaluate staffing requirements on an ongoing basis throughout the term of the project.

Item 2o—The entity does not have a written plan for testing changes made to its mission-critical systems intended to remedy potential year 2000 problems.

25. A practitioner may perform significant portions of the agreed-upon procedures attestation engagement before the date of the entity’s assertion. If, during that time, the practitioner identifies conditions that would result in an exception to one or more agreed-upon procedures, he or she should—

a. Not report an exception in the agreed-upon procedures report if the condition is corrected on or before the date of the entity’s assertion.

b. Report an exception in the agreed-upon procedures report if the entity does not correct the condition on or before the date of the assertion. However, if the condition has been corrected by the date of the practitioner’s report, the explanation for the exception should indicate, “the condition resulting in the reporting of an exception was corrected subsequent to the date of ABC Entity’s assertion.” In such case, no further explanation of the condition resulting in the exception is necessary.

26. The practitioner has no obligation to perform procedures beyond the agreed-upon procedures set forth in this SOP. However, if information contradicting management’s assertion comes to the practitioner’s attention by other means, such information should be included in his or her report.
27. The practitioner may become aware of conditions or events occurring subsequent to the date of the entity's assertion but before the date of the accountant's report that contradict the entity's assertion or would have resulted in the reporting of an exception by the practitioner if that condition or event had existed at the date of the assertion. The accountant should consider including information about such conditions or events in his or her report. However, the practitioner has no responsibility to perform procedures to detect such conditions or events.

SEC and CFTC Combined Reporting

28. A number of entities will be required to engage accountants to perform agreed-upon procedures attestation engagements to satisfy the requirements of both SEC rule 17a-5 and CFTC Advisories No. 17-98 and No. 42-98. For these entities, Advisory No. 42-98 provides that the timing of the agreed-upon procedures engagements will be the same as that for agreed-upon procedure engagements performed to satisfy the requirements of SEC rule 17a-5 (see Advisory No. 42-98 and paragraph 9a of this SOP). Thus, entities subject to the requirements of both the SEC and the CFTC may file either separate agreed-upon procedures reports with the SEC and the CFTC or a combined report. An illustrative combined report is in appendix D, "Illustrative Combined Agreed-Upon Procedures Report Pursuant to CFTC Advisories No. 17-98 and No. 42-98 and SEC Rule 17a-5," of this SOP.

29. When reporting on a combined basis, the relevant assertions for the agreed-upon procedures engagement will include both Form BD-Y2K and the assertion required for CFTC agreed-upon procedures engagements as set forth in paragraphs 18 and 20 of this SOP.

Restriction on the Performance of Procedures

30. As discussed in paragraph 15 of this SOP, the practitioner should not agree to alter the scope of the procedures set forth
in the illustrative agreed-upon procedures reports that appear in the appendixes to this SOP. If circumstances impose restrictions on the performance of the agreed-upon procedures as described in the sample agreed-upon procedures reports, the practitioner should describe the restriction(s) in his or her report or withdraw from the engagement.

**Dating of Report**

31. The date of completion of the agreed-upon procedures should be used as the date of the agreed-upon procedures report.

**Report on Internal Control Required by CFTC Regulation 1.16**

32. The CFTC rules require that the scope of the financial statement audit be sufficient to provide reasonable assurance that material inadequacies, as defined by the CFTC, are detected. Auditors of entities subject to CFTC Regulation 1.16 are required to file a supplemental report on the entity's internal control describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

33. Because CFTC Advisory No. 17–98 indicated that a year 2000 problem, as defined in that advisory, constitutes a material inadequacy within the meaning of CFTC Regulation 1.16, the practitioner performing the entity's audit should include the following in his or her report on internal control prepared in connection with the audit and pursuant to CFTC Regulation 1.16:

   a. A discussion of the requirements of CFTC Advisories No. 17–98 and No. 42–98 with respect to the year 2000 problem
   
   b. A reference to the agreed-upon procedures attestation engagement to be performed pursuant to this SOP

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9. As discussed in footnote number 2, certain CFTC registrants are exempt from the requirement to file this report. Therefore, this reference should be omitted from the report on internal control relating to these registrants.
c. A description of the limitations on assurance provided by the accountant with respect to the year 2000 problem

An illustrative report on internal control required under CFTC Regulation 1.16, modified to limit the scope of the report for the Year 2000 Issue, is in appendix E, "Report on Internal Control Required by CFTC Regulation 1.16, Modified to Limit the Scope of the Report for the Year 2000 Issue," herein.

34. In the course of performing the financial statement audit and the agreed-upon procedures attestation engagement, the accountant may become aware of matters relating to the year 2000 problem that, in the practitioner’s judgment, constitute material inadequacies as those are defined by the CFTC. The practitioner should follow CFTC requirements for reporting such matters to management and the CFTC. Depending on the timing of the identification of such matters, they may be included in the practitioner’s report on internal control prepared in connection with the financial statement audit, or it may be necessary to make such communications separately.

Report on Internal Control Required by SEC Rule 17a–5

35. In connection with the financial statement audit of a broker-dealer, the SEC requires independent auditors to issue a report on internal accounting control. To meet this requirement, the auditor issues a report that expresses an opinion on the adequacy of specified practices and procedures in relation to the definition of a material inadequacy as stated in rule 17a–5(g)(3) and discloses material weaknesses in internal control (including controls for safeguarding securities) that are revealed through auditing procedures designed and conducted for the purpose of expressing an opinion on the financial statements. With respect to material inadequacies, the auditor also is subject to the notification requirements of SEC rules 17a-5 and 17a-11.

36. The staff of the SEC has not issued any interpretive guidance as to whether any year 2000 problems as defined by
the SEC should be considered material inadequacies. An accountant should refer to rule 17a-5(g)(3) when evaluating whether any year 2000 problems identified in performing a financial statement audit for a broker-dealer or an agreed-upon procedures attestation engagement pursuant to this SOP constitute a material inadequacy.

37. With respect to entities subject to both SEC rule 17a-5 and CFTC Regulation 1.16, if a material inadequacy relating to a year 2000 problem is reported to the CFTC (see paragraph 34), practitioners are advised to consider including that information in the internal control report filed with the SEC. However, for reporting to the SEC, the accountant may determine that such matters do not constitute a material inadequacy.

**Effective Date**

38. This SOP is effective upon issuance and is applicable only to agreed-upon procedures attestation engagements relating to the assertions regarding year 2000 readiness in Part I and Part II of Form BD-Y2K, Part I and Part II of Form TA-Y2K, or a futures commission merchant or introducing broker's representation regarding the absence of material inadequacies relating to year 2000 problems as such are defined in CFTC Advisory No. 17-98.
APPENDIX A
Illustrative Agreed-Upon Procedures
Report Pursuant to SEC Rule 17a-5

Independent Accountant's Report
on Applying Agreed-Upon Procedures

To the Board of Directors of ABC Broker-Dealer:

We have performed the procedures enumerated below as specified in the American Institute of Certified Public Accountants' (AICPA's) Statement of Position 98-8, which were agreed to by ABC Broker-Dealer (hereinafter referred to as the entity) to assist the users in evaluating the entity's assertions in Parts I and II of Form BD-Y2K (Form BD-Y2K) as of March 15, 1999, prepared and filed pursuant to the requirements of SEC rule 17a-5.1 Pursuant to Securities and Exchange Commission (SEC) Release No. 34-40608 these agreed-upon procedures will satisfy the SEC's regulatory requirements. This report is issued solely for these regulatory purposes.

This agreed-upon procedures engagement was performed in accordance with standards established by the AICPA. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Findings

<table>
<thead>
<tr>
<th>Procedure</th>
<th>No</th>
<th>Exception</th>
<th>Exception</th>
<th>N/A</th>
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<tbody>
<tr>
<td>1. We read the entity's written plans for preparing and testing the</td>
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<td>entity's computer systems for potential year 2000 problems² (year 2000</td>
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<td>project plans) and—</td>
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(continued)

1 See 17 C.F.R. 240.17a-5 (rule 17a-5).
2 See rule 17a-5(e)(5)(i) for the SEC's definition of year 2000 problem.
Findings

<table>
<thead>
<tr>
<th>Procedure</th>
<th>No</th>
<th>Exception</th>
<th>Exception</th>
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<tr>
<td>a. Determined, by comparison to organization charts (or similar corporate documents) and the entity's most recent net capital calculation, that the year 2000 project plans include all divisions and branches of the registered entity and any subsidiary or affiliate as to which the registered entity (1) guarantees, endorses, or assumes directly or indirectly the obligations or liabilities, or (2) receives flow-through capital treatment.³</td>
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<td>b. Obtained written representation from the entity's chief operating officer (or equivalent) that the organization charts (or similar corporate documents) used in performing this procedure were complete, accurate, and current.</td>
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<tr>
<td>c. Obtained written representation from the entity's chief operating officer (or equivalent) that the net capital calculation includes any subsidiary or affiliate as to which the registered entity (1) guarantees, endorses, or assumes directly or indirectly the obligations or liabilities, or (2) receives flow-through capital treatment.</td>
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<td>d. Compared the organizational information in the year 2000 project plans (see item 1a) with the corresponding information in Form BD-Y2K and found them to be in agreement.</td>
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2. We read the entity's year 2000 project plans, and determined that the plans include each of the elements listed below. In performing this procedure, we did not evaluate the completeness or accuracy of the information contained within each element of the written document nor did we evaluate whether the year 2000 project plans will achieve the objectives set forth therein.

³ For further guidance, please refer to appendix C to SEC rule 15c3-1.
**Findings**

<table>
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<tr>
<th>Procedure</th>
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<th>Exception</th>
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</table>

**Assessment**

**Mission-critical systems**

a. The entity's definition of mission-critical systems. (In defining *mission-critical*, the entity included, as applicable, systems—whether developed and maintained in-house or by an outside service organization—related to clearing and settlement, customer segregation, net capital, financial reporting, and payroll, among other things.)

b. Process for identifying and actual identification of systems (including affected software and hardware) that the entity has determined are mission-critical systems

c. Process for identifying and actual identification of mission-critical systems that the entity has determined present a potential year 2000 problem (hereinafter referred to as *noncompliant*)

(See footnote 1 of this report.)

**Vendors, service providers, and counterparties**

4. For purposes of this report, vendors, service providers, and counterparties may include affiliated entities.

(continued)
(2) insufficient information is available to the entity to make an assessment as to the significant third party’s year 2000 readiness

Electronic Interfaces

f. Process for identifying and actual identification of internal and external electronic interfaces (hereinafter collectively referred to as interfaces) that the entity has determined to be significant (as defined by the entity) in the context of the entity’s potential year 2000 problems

g. Process for identifying and actual identification of significant interfaces that the entity has determined are noncompliant

Remediation strategy

Mission-critical systems

h. Plans for repairing or replacing each noncompliant mission-critical system (including affected hardware and software)

i. The date by which each noncompliant mission-critical system is expected to be year 2000 ready and either (1) a determination by the entity that such date is prior to the date that the entity expects the mission-critical system to fail, or (2) plans for resolving situations where mission-critical systems are not expected to be year 2000 ready before failure

Third Parties

j. Plans for resolving situations in which either (1) a significant third party’s assessed lack of year 2000 readiness is expected to result in its inability to provide goods and services or perform in the time and manner required, or (2) insufficient information is available to the entity to make an assessment as to the significant third party’s year 2000 readiness
**Interfaces**

k. Plans for repairing or replacing each significant noncompliant interface (including affected hardware and software)

l. The date by which each significant noncompliant interface is expected to be year 2000 ready and either (1) a determination by the entity that such date is prior to the date that the entity expects the significant interfaces to fail, or (2) plans for addressing situations in which significant interfaces are not expected to be year 2000 ready before failure

**Staffing**

m. Identification of staff resources needed, including the assignment of existing employees and/or hiring of new employees or contractors to implement the year 2000 project plans.

n. Process to evaluate staffing requirements on an ongoing basis throughout the term of the project

**Testing**

o. Plans for testing year 2000 project efforts relating to each mission-critical system and significant interface (including affected hardware and software) as follows:

(1) Internal testing

(2) Point-to-point testing

(3) Industry-wide testing in Securities Industry Association Tier 1

p. Process for reporting results of testing (including exceptions) identified in item o above to members of management assigned oversight responsibility for the implementation of the year 2000 project plans (See item s below.)

(continued)
<table>
<thead>
<tr>
<th>Procedure</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Contingency plans</strong></td>
<td></td>
</tr>
<tr>
<td>q. Plans for addressing unexpected failures or unsuccessful remediation efforts of mission-critical systems or significant interfaces and unexpected inability of significant third parties to continue to provide goods and services or perform in the time and manner required due to lack of year 2000 readiness</td>
<td>No</td>
</tr>
</tbody>
</table>

**Timetable**

| r. Timetable with milestones for completion of the key elements (assessment, implementation of remediation strategy, staffing, testing, and contingency planning) of the entity’s year 2000 project plans | No | Exception | Exception | N/A |

**Management Oversight**

| s. Specific identification of the member(s) of management who have been assigned oversight responsibility for the implementation of the year 2000 project plans | No | Exception | Exception | N/A |

**Monitoring**

| t. Procedures for reporting the progress of the year 2000 project efforts to members of management assigned oversight responsibility for the implementation of the year 2000 project plans (See item s above.) | No | Exception | Exception | N/A |
| u. Procedures for reporting the progress of the year 2000 project efforts, including the results of testing, to the board of directors⁵ | No | Exception | Exception | N/A |
| v. Procedures for evaluating the progress of the year 2000 project efforts, including testing thereof, and making revisions to the year 2000 project plans as necessary | No | Exception | Exception | N/A |

---

⁵ As used in this report, board of directors refers to the board of directors, its designee committee for addressing year 2000 matters, or group equivalent to the board of directors or designee committee.
3. We compared the information described in items 2a to 2v with the corresponding information in Form BD-Y2K and found it to be in agreement.

4. We read minutes of meetings of the board of directors, or made inquiries of individuals in attendance at meetings of the board of directors and noted that the board of directors of the entity approved the year 2000 project plans. We compared this information with the corresponding information in Form BD-Y2K and found it to be in agreement.

5. We read minutes of meetings of the board of directors, or made inquiries of individuals in attendance at meetings of the board of directors and noted that the board of directors has approved the commitment of financial resources determined by management to be sufficient to accomplish the objectives of the entity's year 2000 project plans. We compared this information with the corresponding information in Form BD-Y2K and found it to be in agreement. In performing this procedure, we did not evaluate the adequacy of the resources determined by management to be sufficient to accomplish the objectives of the year 2000 project plans.

6. We obtained from management a list of business units considered by the entity to be significant, and performed the following procedures.

**Assessment**

a. We inquired of management of five randomly selected (or 100 percent if less than five) significant business units (see list below), and obtained written repre-

---

6. The entity's list of significant business units includes profit centers as well as support units such as treasury, accounting, payroll and human resources, order entry and trade execution, clearance and settlement, and regulatory reporting.
Findings

<table>
<thead>
<tr>
<th>Procedure</th>
<th>No Exception</th>
<th>Exception</th>
<th>N/A</th>
</tr>
</thead>
</table>

presentation therefrom, as to whether the identification of mission-critical systems included in the entity's year 2000 project plans included all systems that they considered critical to the continuation of operations in their respective business unit (see item 2b above). An exception would be reported if, as a result of this procedure, management of a significant business unit identified systems that they considered critical to the continuation of operations in their respective business unit that are not included in the entity's year 2000 project plans.

[List the five business units here.]

b. We inquired of management of five randomly selected (or 100 percent if less than five) significant business units (see list below), and obtained written representation therefrom, as to whether the identification of significant third parties included in the entity's year 2000 project plans included all third parties that they considered critical to the continuation of operations in their respective business unit (see item 2d above). An exception would be reported if, as a result of this procedure, management of a significant business unit identified significant third parties that they considered critical to the continuation of operations in their respective business unit that are not included in the entity's year 2000 project plans.

[List the five business units here.]

c. We inquired of information technology management of five randomly selected (or 100 percent if less than five) significant business units (see list below), and obtained written representation therefrom, as to whether the identification of interfaces included in the entity's year 2000 project plans included all inter-
Consideration of critical interfaces.

No Exception Exception N/A

faces that they considered critical to the continuation of operations in their respective business unit (see item 2f above). An exception would be reported if, as a result of this procedure, information technology management of a significant business unit identified interfaces that they considered critical to the continuation of operations in their respective business unit that are not included in the entity's year 2000 project plans.

[List the five business units here.]

Staffing

d. We read [reports to or summaries of meetings attended by] the individual(s) of the management team with oversight responsibility for the execution of the year 2000 project plans indicating that implementation of staffing plans, as set forth in the year 2000 project plans, are being tracked and deviations from the year 2000 project plans are being identified.

e. We read contracts or other written evidence of engagements with five randomly selected (or 100 percent if less than five) individuals (not employees) or entities that were contracted to implement year 2000 project activities. We compared this information with the corresponding information in the year 2000 project plans and found them to be in agreement.

Testing

f. We read [reports to or summaries of meetings attended by] the individual(s) of the management team with oversight responsibility for the execution of the year 2000 project plans indicating that the status of testing of mission-critical systems and significant interfaces is being tracked and any delays in schedule are being identified.

(continued)
Procedure

g. We obtained written representation from the individual(s) of the management team with oversight responsibility for the execution of the year 2000 project plans that the status of testing of mission-critical systems and significant interfaces is being tracked and any delays in schedule are being identified.

Monitoring

h. We [read minutes of meetings of the board of directors, or made inquiries of individuals in attendance at meetings of the board of directors] and noted that, as called for in the year 2000 project plans, the board of directors is receiving periodic updates of the status of the implementation progress of the year 2000 project plans.

i. We read [reports to or summaries of meetings attended by] the individual(s) of the management team with oversight responsibility for executing the year 2000 project plans indicating that modifications to the year 2000 project plans that they have determined are necessary, including those found to be necessary as a result of testing or delays in schedule, have been made.

j. We obtained written representation from the individual(s) of the management team with oversight responsibility for executing the year 2000 project plans that modifications to the year 2000 project plans that they have determined are necessary, including those found to be necessary as a result of testing or delays in schedule, have been made.

7. We compared the information described in items 6a to 6j with the corresponding information in Form BD-Y2K and found it to be in agreement.

Findings

<table>
<thead>
<tr>
<th>Procedure</th>
</tr>
</thead>
<tbody>
<tr>
<td>g. We obtained written representation from the individual(s) of the management team with oversight responsibility for the execution of the year 2000 project plans that the status of testing of mission-critical systems and significant interfaces is being tracked and any delays in schedule are being identified.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Findings</th>
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<tbody>
<tr>
<td>No Exception Exception N/A</td>
</tr>
</tbody>
</table>

30
We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on the entity’s assertions included in Form BD-Y2K referred to in the introductory paragraph of this report. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. Our procedures also do not provide assurance that the entity is or will be year 2000 ready, that its year 2000 project plans will be successful in whole or in part, or that parties with which the entity does business will be year 2000 ready.

This report is intended solely for the information and use of the Board of Directors and Management of ABC Broker-Dealer, the Securities and Exchange Commission, and ABC Broker-Dealer’s designated self-regulatory organization and is not intended to be and should not be used by anyone other than these specified parties.

[Signed]

[City]

[Date]
APPENDIX B

Illustrative Agreed-Upon Procedures
Report Pursuant to SEC Rule 17Ad-18

Independent Accountant’s Report
on Applying Agreed-Upon Procedures

To the Board of Directors of ABC Transfer Agent:

We have performed the procedures enumerated below as specified in the American Institute of Certified Public Accountants’ (AICPA’s) Statement of Position 98-8 which were agreed to by ABC Transfer Agent (hereinafter referred to as the entity) to assist the users in evaluating the entity’s assertions in Parts I and II of Form TA-Y2K (Form TA-Y2K) as of March 15, 1999, prepared and filed pursuant to the requirements of SEC rule 17Ad-18. Pursuant to Securities and Exchange Commission (SEC) Release No. 34-40587, these agreed-upon procedures will satisfy the SEC’s regulatory requirements. This report is issued solely for these regulatory purposes.

This agreed-upon procedures engagement was performed in accordance with standards established by the AICPA. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

<table>
<thead>
<tr>
<th>Procedure</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. We read the entity’s written plans for preparing and testing the entity’s computer systems for potential year 2000 problems (year 2000 project plans) and—</td>
<td></td>
</tr>
<tr>
<td>a. Determined, by comparison to organization charts (or similar corporate documents), that the year 2000 project</td>
<td></td>
</tr>
</tbody>
</table>

2. See rule 17Ad-18(d) for the SEC’s definition of year 2000 problem.
<table>
<thead>
<tr>
<th>Procedure</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>plans include all divisions and branches of the registered entity and any subsidiary or affiliate as to which the registered entity guarantees, endorses, or assumes directly or indirectly the obligations or liabilities</td>
<td>No</td>
</tr>
<tr>
<td>b. Obtained written representation from the entity's chief operating officer (or equivalent) that the organization charts (or similar corporate documents) used in performing this procedure were complete, accurate, and current.</td>
<td>Exception</td>
</tr>
<tr>
<td>c. Compared the organizational information in the year 2000 project plans (see item 1a) with the corresponding information in Form TA-Y2K and found them to be in agreement.</td>
<td>Exception</td>
</tr>
</tbody>
</table>

2. We read the entity's year 2000 project plans, and determined that the plans include each of the elements listed below. In performing this procedure, we did not evaluate the completeness or accuracy of the information contained within each element of the written document nor did we evaluate whether the year 2000 project plans will achieve the objectives set forth therein.

Assessment

Mission-critical systems

a. The entity's definition of mission-critical systems (In defining mission-critical, the entity included, as applicable, systems—whether developed and maintained in-house or by an outside service organization—related to clearing and settlement, customer segregation, financial reporting, and payroll, among other things.)

b. Process for identifying and actual identification of systems (including affected software and hardware) that the entity has determined are mission-critical systems

(continued)
<table>
<thead>
<tr>
<th>Procedure</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>c. Process for identifying and actual identification of mission-critical systems that the entity has determined present a potential year 2000 problem (hereinafter referred to as noncompliant) (See footnote 1 of this report.)</td>
<td>Exception Exception N/A</td>
</tr>
<tr>
<td>Vendors, service providers, and counterparties³</td>
<td></td>
</tr>
<tr>
<td>d. Process for identifying and actual identification of vendors, service providers, and counterparties (hereinafter collectively referred to as third parties) that the entity has determined to be significant (as defined by the entity) in the context of the entity's potential year 2000 problems</td>
<td></td>
</tr>
<tr>
<td>e. Process for identifying and actual identification of significant third parties with respect to which the entity has determined either (1) the third party's lack of year 2000 readiness is expected to result in its inability to continue to provide goods and services or perform in the time and manner required, or (2) insufficient information is available to the entity to make an assessment as to the significant third party's year 2000 readiness</td>
<td></td>
</tr>
<tr>
<td>Electronic Interfaces</td>
<td></td>
</tr>
<tr>
<td>f. Process for identifying and actual identification of internal and external electronic interfaces (hereinafter collectively referred to as interfaces) that the entity has determined to be significant (as defined by the entity) in the context of the entity's potential year 2000 problems</td>
<td></td>
</tr>
<tr>
<td>g. Process for identifying and actual identification of significant interfaces that the entity has determined are noncompliant</td>
<td></td>
</tr>
</tbody>
</table>

3. For purposes of this report, vendors, service providers, and counterparties may include affiliated entities.
**Remediation strategy**

**Mission-critical systems**

- h. Plans for repairing or replacing each non-compliant mission-critical system (including affected hardware and software)
- i. The date by which each noncompliant mission-critical system is expected to be year 2000 ready and either (1) a determination by the entity that such date is prior to the date that the entity expects the mission-critical system to fail, or (2) plans for resolving situations where mission-critical systems are not expected to be year 2000 ready before failure

**Third Parties**

- j. Plans for resolving situations in which either (1) a significant third party’s assessed lack of year 2000 readiness is expected to result in its inability to provide goods and services or perform in the time and manner required, or (2) insufficient information is available to the entity to make an assessment as to the significant third party’s year 2000 readiness

**Interfaces**

- k. Plans for repairing or replacing each significant noncompliant interface (including affected hardware and software)
- l. The date by which each significant noncompliant interface is expected to be year 2000 ready and either (1) a determination by the entity that such date is prior to the date that the entity expects the significant interfaces to fail or (2) plans for addressing situations in which significant interfaces are not expected to be year 2000 ready before failure

(continued)
Findings

<table>
<thead>
<tr>
<th>Procedure</th>
<th>No Exception</th>
<th>Exception</th>
<th>N/A</th>
</tr>
</thead>
</table>

**Staffing**

m. Identification of staff resources needed, including the assignment of existing employees and/or hiring of new employees or contractors to implement the year 2000 project plans

n. Process to evaluate staffing requirements on an ongoing basis throughout the term of the project

**Testing**

o. Plans for testing year 2000 project efforts relating to each mission-critical system and significant interface (including affected hardware and software) as follows:

(1) Internal testing

(2) Point-to-point testing:
   - Depository Trust Company or other clearing organization
   - Other

p. Process for reporting results of testing (including exceptions) identified in item o above to members of management assigned oversight responsibility for the implementation of the year 2000 project plans (See item s below.)

**Contingency plans**

q. Plans for addressing unexpected failures or unsuccessful remediation efforts of mission-critical systems or significant interfaces and unexpected inability of significant third parties to continue to provide goods and services or perform in the time and manner required due to lack of year 2000 readiness

**Timetable**

r. Timetable with milestones for completion of the key elements (assessment, implementation of remediation strat-
egy, staffing, testing, and contingency planning) of the entity's year 2000 project plans

Management Oversight

s. Specific identification of the member(s) of management who have been assigned oversight responsibility for the implementation of the year 2000 project plans

Monitoring

t. Procedures for reporting the progress of the year 2000 project efforts to members of management assigned oversight responsibility for the implementation of the year 2000 project plans (See items above.)

u. Procedures for reporting the progress of the year 2000 project efforts, including the results of testing, to the board of directors

v. Procedures for evaluating the progress of the year 2000 project efforts, including testing thereof, and making revisions to the year 2000 project plans as necessary

3. We compared the information described in items 2a-to 2v with the corresponding information in Form TA-Y2K and found it to be in agreement.

4. We [read minutes of meetings of the board of directors, or made inquiries of individuals in attendance at meetings of the board of directors] and noted that the board of directors of the entity approved the year 2000 project plans. We compared this information with the corresponding information in Form TA-Y2K and found it to be in agreement.

(continued)

4. As used in this report, board of directors refers to the board of directors, its designee committee for addressing year 2000 matters, or group equivalent to the board of directors or designee committee.
5. We [read minutes of meetings of the board of directors, or made inquiries of individuals in attendance at meetings of the board of directors] and noted that the board of directors has approved the commitment of financial resources determined by management to be sufficient to accomplish the objectives of the entity's year 2000 project plans. We compared this information with the corresponding information in Form TA-Y2K and found it to be in agreement. In performing this procedure, we did not evaluate the adequacy of the resources determined by management to be sufficient to accomplish the objectives of the year 2000 project plans.

<table>
<thead>
<tr>
<th>Procedure</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>5. We [read minutes of meetings of the board of directors, or made inquiries of individuals in attendance at meetings of the board of directors] and noted that the board of directors has approved the commitment of financial resources determined by management to be sufficient to accomplish the objectives of the entity’s year 2000 project plans. We compared this information with the corresponding information in Form TA-Y2K and found it to be in agreement. In performing this procedure, we did not evaluate the adequacy of the resources determined by management to be sufficient to accomplish the objectives of the year 2000 project plans.</td>
<td>Exception N/A</td>
</tr>
</tbody>
</table>

6. We obtained from management a list of business units considered by the entity to be significant, and performed the following procedures.

**Assessment**

a. We inquired of management of five randomly selected (or 100 percent if less than five) significant business units (see list below), and obtained written representation therefrom, as to whether the identification of mission-critical systems included in the entity’s year 2000 project plans included all systems that they considered critical to the continuation of operations in their respective business unit (see item 2b above). An exception would be reported if, as a result of this procedure, management of a significant business unit identified systems that they considered critical to the continuation of operations in their respective business unit that are not included in the entity’s year 2000 project plans.

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5. The entity’s list of significant business units includes profit centers as well as support units such as treasury, accounting, payroll and human resources, order entry and trade execution, clearance and settlement, and regulatory reporting.
b. We inquired of management of five randomly selected (or 100 percent if less than five) significant business units (see list below), and obtained written representation therefrom, as to whether the identification of significant third parties included in the entity's year 2000 project plans included all third parties that they considered critical to the continuation of operations in their respective business unit (see item 2d above). An exception would be reported if, as a result of this procedure, management of a significant business unit identified significant third parties that they considered critical to the continuation of operations in their respective business unit that are not included in the entity's year 2000 project plans.

[List the five business units here.]

c. We inquired of information technology management of five randomly selected (or 100 percent if less than five) significant business units (see list below), and obtained written representation therefrom, as to whether the identification of interfaces included in the entity's year 2000 project plans included all interfaces that they considered critical to the continuation of operations in their respective business unit (see item 2f above). An exception would be reported if, as a result of this procedure, information technology management of a significant business unit identified interfaces that they considered critical to the continuation of operations in their respective business unit that are not included in the entity's year 2000 project plans.

[List the five business units here.]
**Findings**

<table>
<thead>
<tr>
<th>Procedure</th>
<th>Finding</th>
<th>Exception</th>
<th>Exception</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Staffing</strong></td>
<td></td>
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</tr>
<tr>
<td>d. We read [reports to or summaries of meetings attended by] the individual(s) of the management team with oversight responsibility for the execution of the year 2000 project plans indicating that implementation of staffing plans, as set forth in the year 2000 project plans, are being tracked and deviations from the year 2000 project plans are being identified.</td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>e. We read contracts or other written evidence of engagements with five randomly selected (or 100 percent if less than five) individuals (not employees) or entities that were contracted to implement year 2000 project activities. We compared this information with the corresponding information in the year 2000 project plans and found them to be in agreement.</td>
<td></td>
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<td></td>
</tr>
<tr>
<td><strong>Testing</strong></td>
<td></td>
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</tr>
<tr>
<td>f. We read [reports to or summaries of meetings attended by] the individual(s) of the management team with oversight responsibility for the execution of the year 2000 project plans indicating that the status of testing of mission-critical systems and significant interfaces is being tracked and any delays in schedule are being identified.</td>
<td></td>
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<tr>
<td>g. We obtained written representation from the individual(s) of the management team with oversight responsibility for the execution of the year 2000 project plans that the status of testing of mission-critical systems and significant interfaces is being tracked and any delays in schedule are being identified.</td>
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<tr>
<td><strong>Monitoring</strong></td>
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<tr>
<td>h. We [read minutes of meetings of the board of directors, or made inquiries of</td>
<td></td>
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</tbody>
</table>
Findings

<table>
<thead>
<tr>
<th>Procedure</th>
<th>No</th>
<th>Exception</th>
<th>Exception</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>individuals in attendance at meetings of the board of directors</em></td>
<td></td>
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</tr>
</tbody>
</table>

i. We read [*reports to or summaries of meetings attended by*] the individual(s) of the management team with oversight responsibility for executing the year 2000 project plans indicating that modifications to the year 2000 project plans that they have determined are necessary, including those found to be necessary as a result of testing or delays in schedule, have been made.

j. We obtained written representation from the individual(s) of the management team with oversight responsibility for executing the year 2000 project plans that modifications to the year 2000 project plans that they have determined are necessary, including those found to be necessary as a result of testing or delays in schedule, have been made.

7. We compared the information described in items 6a to 6j with the corresponding information in Form TA-Y2K and found it to be in agreement.

[Include description of any exceptions.]

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on the entity's assertions included in Form TA-Y2K referred to in the introductory paragraph of this report. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. Our procedures also do not provide assurance that the entity is or will be year 2000 ready, that its year 2000 project plans will be successful in whole
or in part, or that parties with which the entity does business will be year 2000 ready.

This report is intended solely for the information and use of the Board of Directors and Management of ABC Transfer Agent, and the Securities and Exchange Commission, and is not intended to be and should not be used by anyone other than these specified parties.

[Signed]

[City]

[Date]
APPENDIX C

Illustrative Agreed-Upon Procedures
Report Pursuant to CFTC Advisories
No. 17–98 and No. 42–98

Independent Accountant’s Report
on Applying Agreed-Upon Procedures

To the Board of Directors of ABC Futures Commission Merchant:

We have performed the procedures enumerated below as specified in the American Institute of Certified Public Accountants’ (AICPA's) Statement of Position 98–8 which were agreed to by ABC Futures Commission Merchant (hereinafter referred to as the entity) to assist the users in evaluating the entity’s assertion as of [date] about the absence of a material inadequacy within the meaning of CFTC Regulation 1.16 relating to a year 2000 problem, included in its representation letter dated [insert date]. The Commodity Futures Trading Commission’s (CFTC’s) Advisory No. 42–98 states that these agreed-upon procedures will satisfy the Commission’s regulatory requirements. This report is issued solely for these regulatory purposes.

This agreed-upon procedures engagement was performed in accordance with standards established by the AICPA. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Findings

<table>
<thead>
<tr>
<th>Procedure</th>
<th>No</th>
<th>Exception</th>
<th>Exception</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. We read the entity’s written plans for preparing and testing the entity’s computer systems for potential year 2000 problems¹ (year 2000 project plans) and—</td>
<td></td>
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</tr>
</tbody>
</table>

(continued)

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1. Year 2000 problem is defined in CFTC Advisory No. 17–98.
Procedure

Findings

No

Exception

Exception

N/A

a. Determined, by comparison to organization charts (or similar corporate documents) that the year 2000 project plans include all divisions and branches of the registered entity and any subsidiary or affiliate as to which the registered entity (1) guarantees, endorses or assumes directly or indirectly the obligations or liabilities, or (2) receives flow-through capital treatment.\(^2\)

---

b. Obtained written representation from the entity's chief operating officer (or equivalent) that the organization charts (or similar corporate documents) used in performing this procedure were complete, accurate, and current.

---

2. We read the entity's year 2000 project plans, and determined that the plans include each of the elements listed below. In performing this procedure, we did not evaluate the completeness or accuracy of the information contained within each element of the written document nor did we evaluate whether the year 2000 project plans will achieve the objectives set forth therein.

Assessment

Mission-critical systems

a. The entity's definition of mission-critical systems (In defining mission-critical, the entity included, as applicable, systems—whether developed and maintained inhouse or by an outside service organization—related to clearing and settlement, customer segregation, minimum financial requirements, financial reporting, and payroll, among other things.)

---

b. Process for identifying and actual identification of systems (including affected

---

2. For further guidance, please refer to CFTC rule 1.17(f).
Procedure

software and hardware) that the entity has determined are mission-critical systems

c. Process for identifying and actual identification of mission-critical systems that the entity has determined present a potential year 2000 problem (hereinafter referred to as noncompliant) (See footnote 1 of this report.)

Vendors, service providers, and counterparties³

d. Process for identifying and actual identification of vendors, service providers, and counterparties (hereinafter collectively referred to as third parties) that the entity has determined to be significant (as defined by the entity) in the context of the entity's potential year 2000 problems

e. Process for identifying and actual identification of significant third parties with respect to which the entity has determined either (1) the third party's lack of year 2000 readiness is expected to result in its inability to continue to provide goods and services or perform in the time and manner required, or (2) insufficient information is available to the entity to make an assessment as to the significant third party's year 2000 readiness

Electronic Interfaces

f. Process for identifying and actual identification of internal and external electronic interfaces (hereinafter collectively referred to as interfaces) that the entity has determined to be significant (as defined by the entity) in the context of the entity's potential year 2000 problems

Findings

<table>
<thead>
<tr>
<th>Procedure</th>
<th>No</th>
<th>Exception</th>
<th>Exception</th>
<th>N/A</th>
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<tbody>
<tr>
<td>software and hardware) that the entity has determined are mission-critical systems</td>
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<tr>
<td>c. Process for identifying and actual identification of mission-critical systems that the entity has determined present a potential year 2000 problem (hereinafter referred to as noncompliant) (See footnote 1 of this report.)</td>
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<tr>
<td>Vendors, service providers, and counterparties³</td>
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<tr>
<td>d. Process for identifying and actual identification of vendors, service providers, and counterparties (hereinafter collectively referred to as third parties) that the entity has determined to be significant (as defined by the entity) in the context of the entity's potential year 2000 problems</td>
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<tr>
<td>e. Process for identifying and actual identification of significant third parties with respect to which the entity has determined either (1) the third party's lack of year 2000 readiness is expected to result in its inability to continue to provide goods and services or perform in the time and manner required, or (2) insufficient information is available to the entity to make an assessment as to the significant third party's year 2000 readiness</td>
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<tr>
<td>Electronic Interfaces</td>
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</table>

3. For purposes of this report, significant vendors, service providers, and counterparties may include affiliated entities.
<table>
<thead>
<tr>
<th>Procedure</th>
<th>Findings</th>
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<tbody>
<tr>
<td>g. Process for identifying and actual identification of significant interfaces that the entity has determined are noncompliant</td>
<td></td>
</tr>
<tr>
<td><strong>Remediation strategy</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Mission-critical systems</strong></td>
<td></td>
</tr>
<tr>
<td>h. Plans for repairing or replacing each non-compliant mission-critical system (including affected hardware and software)</td>
<td></td>
</tr>
<tr>
<td>i. The date by which each noncompliant mission-critical system is expected to be year 2000 ready and either (1) a determination by the entity that such date is prior to the date that the entity expects the mission-critical system to fail, or (2) plans for resolving situations where mission-critical systems are not expected to be year 2000 ready before failure</td>
<td></td>
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<tr>
<td><strong>Third Parties</strong></td>
<td></td>
</tr>
<tr>
<td>j. Plans for resolving situations in which either (1) a significant third party's assessed lack of year 2000 readiness is expected to result in its inability to provide goods and services or perform in the time and manner required, or (2) insufficient information is available to the entity to make an assessment as to the significant third party's year 2000 readiness</td>
<td></td>
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<tr>
<td><strong>Interfaces</strong></td>
<td></td>
</tr>
<tr>
<td>k. Plans for repairing or replacing each significant noncompliant interface (including affected hardware and software)</td>
<td></td>
</tr>
<tr>
<td>l. The date by which each significant noncompliant interface is expected to be year 2000 ready and either (1) a determination by the entity that such date is prior to the date that the entity expects the significant interfaces to fail or (2) plans for addressing situations in which significant interfaces are not expected to be year 2000 ready before failure</td>
<td></td>
</tr>
</tbody>
</table>
m. Identification of staff resources needed, including the assignment of existing employees and/or hiring of new employees or contractors to implement the year 2000 project plans
n. Process to evaluate staffing requirements on an ongoing basis throughout the term of the project

Testing

o. Plans for testing year 2000 project efforts relating to each mission-critical system and significant interface (including affected hardware and software) as follows:
   (1) Internal testing
   (2) Point-to-point testing
   (3) Futures Industry Association's industry-wide testing

p. Process for reporting results of testing (including exceptions) identified in item o above to members of management assigned oversight responsibility for the implementation of the year 2000 project plans (See item s below.)

Contingency plans

q. Plans for addressing unexpected failures or unsuccessful remediation efforts of mission-critical systems or significant interfaces and unexpected inability of significant third parties to continue to provide goods and services or perform in the time and manner required due to lack of year 2000 readiness

Timetable

r. Timetable with milestones for completion of the key elements (assessment, implementation of remediation strategy, staffing, testing, and contingency (continued)
**Procedure**

planning) of the entity's year 2000 project plans

<table>
<thead>
<tr>
<th>Procedure</th>
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<tr>
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</table>

**Management Oversight**

s. Specific identification of the member(s) of management who have been assigned oversight responsibility for the implementation of the year 2000 project plans

<table>
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<tr>
<th>Procedure</th>
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<tbody>
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<td></td>
<td>No</td>
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</table>

**Monitoring**

t. Procedures for reporting the progress of the year 2000 project efforts to members of management assigned oversight responsibility for the implementation of the year 2000 project plans (See item s above.)

<table>
<thead>
<tr>
<th>Procedure</th>
<th>Findings</th>
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</table>

u. Procedures for reporting the progress of the year 2000 project efforts, including the results of testing, to the board of directors

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<thead>
<tr>
<th>Procedure</th>
<th>Findings</th>
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<tbody>
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</table>

v. Procedures for evaluating the progress of the year 2000 project efforts, including testing thereof, and making revisions to the year 2000 project plans as necessary

<table>
<thead>
<tr>
<th>Procedure</th>
<th>Findings</th>
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<tbody>
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</table>

3. We read [minutes of meetings of the board of directors, or made inquiries of individuals in attendance at meetings of the board of directors] and noted that the board of directors of the entity approved the year 2000 project plans.

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<th>Procedure</th>
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<tr>
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</table>

4. We read [minutes of meetings of the board of directors, or made inquiries of individuals in attendance at meetings of the board of directors] and noted that the board of directors has approved the commitment of financial resources determined by management to be sufficient to accomplish the objectives of the entity's year 2000 project plans. In performing this pro-

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4. As used in this report, board of directors refers to the board of directors, its designee committee for addressing year 2000 matters, or group equivalent to the board of directors or designee committee.
5. We obtained from management a list of business units considered by the entity to be significant and performed the following procedures:

**Assessment**

a. We inquired of management of five randomly selected (or 100 percent if less than five) significant business units (see list below), and obtained written representation therefrom, as to whether the identification of mission-critical systems included in the entity's year 2000 project plans included all systems that they considered critical to the continuation of operations in their respective business unit (see item 2b above). An exception would be reported if, as a result of this procedure, management of a significant business unit identified systems that they considered critical to the continuation of operations in their respective business unit that are not included in the entity's year 2000 project plans.

   [List the five business units here.]

b. We inquired of management of five randomly selected (or 100 percent if less than five) significant business units (see list below), and obtained written representation therefrom, as to whether the identification of significant third parties included in the entity's year 2000 project plans included all third parties that they considered critical to the continuation of operations in their

(continued)
respective business unit (see item 2d above). An exception would be reported if, as a result of this procedure, management of a significant business unit identified significant third parties that they considered critical to the continuation of operations in their respective business unit that are not included in the entity's year 2000 project plans.

[List the five business units here.]

c. We inquired of information technology management of five randomly selected (or 100 percent if less than five) significant business units (see list below), and obtained written representation therefrom, as to whether the identification of interfaces included in the entity's year 2000 project plans included all interfaces that they considered critical to the continuation of operations in their respective business unit (see item 2f above). An exception would be reported if, as a result of this procedure, information technology management of a significant business unit identified interfaces that they considered critical to the continuation of operations in their respective business unit that are not included in the entity's year 2000 project plans.

[List the five business units here.]

**Staffing**

d. We read [reports to or summaries of meetings attended by] the individual(s) of the management team with oversight responsibility for the execution of the year 2000 project plans indicating that implementation of staffing plans, as set forth in the year 2000 project plans, are being tracked and deviations from the year 2000 project plans are being identified.
e. We reviewed contracts or other written evidence of engagements with five randomly selected (or 100 percent if less than five) individuals (not employees) or entities that were contracted to implement year 2000 project activities. We compared this information with the corresponding information in the year 2000 project plans and found them to be in agreement.

Testing

f. We read [reports to or summaries of meetings attended by] the individual(s) of the management team with oversight responsibility for the execution of the year 2000 project plans indicating that the status of testing of mission-critical systems and significant interfaces is being tracked and any delays in schedule are being identified.

g. We obtained written representation from the individual(s) of the management team with oversight responsibility for the execution of the year 2000 project plans that the status of testing of mission-critical systems and significant interfaces is being tracked and any delays in schedule are being identified.

Monitoring

h. We [read minutes of meetings of the board of directors, or made inquiries of individuals in attendance at meetings of the board of directors] and noted that, as called for in the year 2000 project plans, the board of directors is receiving periodic updates of the status of the implementation progress of the year 2000 plans.

i. We read [reports to or summaries of meetings attended by] the individual(s) of the management team with oversight responsibility for executing the (continued)
<table>
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<th>Procedure</th>
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<tr>
<td>year 2000 project plans indicating that modifications to the year 2000 project plans that they have determined are necessary, including those found to be necessary as a result of testing or delays in schedule, have been made.</td>
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<tr>
<td>j. We obtained written representation from the individual(s) of the management team with oversight responsibility for executing the year 2000 project plans that modifications to the year 2000 project plans that they have determined are necessary, including those found to be necessary as a result of testing or delays in schedule, have been made.</td>
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</table>

[Include description of any exceptions.]  

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on the entity’s assertion referred to in the introductory paragraph of this report. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. Our procedures also do not provide assurance that the entity is or will be year 2000 ready, that its year 2000 project plans will be successful in whole or in part, or that parties with which the entity does business will be year 2000 ready.

This report is intended solely for the information and use of the Board of Directors and Management of ABC Futures Commission Merchant, the Commodity Futures Trading Commission, and ABC Futures Commission Merchant’s designated self-regulatory organization and is not intended to be and should not be used by anyone other than these specified parties.

[Signed]

[City]

[Date]
APPENDIX D

Illustrative Combined Agreed-Upon Procedures Report Pursuant to CFTC Advisories No. 17-98 and No. 42-98 and SEC Rule 17a-5

Independent Accountant’s Report on Applying Agreed-Upon Procedures

To the Board of Directors of ABC Futures Commission Merchant/Broker-Dealer:

We have performed the procedures enumerated below as specified in the American Institute of Certified Public Accountants’ (AICPA’s) Statement of Position 98–8, which were agreed to by ABC Futures Commission Merchant/Broker-Dealer (hereinafter referred to as the entity) to assist the users in evaluating the entity’s assertions made pursuant to the Commodity Futures Trading Commission (CFTC) and Securities and Exchange Commission’s (SEC’s) regulatory requirements and in the following manner:

1. For the CFTC—the assertion as of [date] about the absence of a material inadequacy within the meaning of CFTC Regulation 1.16 relating to a year 2000 problem, included in its representation letter dated [insert date].

2. For the SEC—the assertions in Parts I and II of Form BD-Y2K (Form BD-Y2K) as of March 15, 1999, prepared and filed pursuant to the requirements of SEC rule 17a-5.¹

Pursuant to CFTC Advisory No. 42–98 and SEC Release No. 34–40608, these agreed-upon procedures will satisfy the CFTC and SEC’s regulatory requirements. This report is issued solely for these regulatory purposes.

This agreed-upon procedures engagement was performed in accordance with standards established by the AICPA. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

¹ 17 C.F.R. 240.17a–5 (rule 17a–5).
1. We read the entity's written plans for preparing and testing the entity's computer systems for potential year 2000 problems\(^2\) (year 2000 project plans) and—

a. Determined, by comparison to organization charts (or similar corporate documents) and the entity's most recent net capital calculation, that the year 2000 project plans include all divisions and branches of the registered entity and any subsidiary or affiliate as to which the registered entity (1) guarantees, endorses, or assumes directly or indirectly the obligations or liabilities, or (2) receives flow-through capital treatment.\(^3\)

b. Obtained written representation from the entity's chief operating officer (or equivalent) that the organization charts (or similar corporate documents) used in performing this procedure were complete, accurate, and current.

c. Obtained written representation from the entity's chief operating officer (or equivalent) that the net capital calculation includes any subsidiary or affiliate as to which the registered entity (1) guarantees, endorses, or assumes directly or indirectly the obligations or liabilities, or (2) receives flow-through capital treatment.

d. Compared the organizational information in the year 2000 project plans (see item 1a) with the corresponding information in Form BD-Y2K and found them to be in agreement.

2. We read the entity's year 2000 project plans, and determined that the plans include each of the elements listed below. In performing this procedure, we did not

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\(^2\) See CFTC Advisory No. 17–98 and SEC rule 17a–5(e)(5)(i) and for the CFTC's and SEC's definitions of year 2000 problem.

\(^3\) For further guidance, please refer to CFTC rule 1.17(f) and appendix C to SEC rule 15c3–1.
evaluate the completeness or accuracy of
the information contained within each el-
ment of the written document nor did we
evaluate whether the year 2000 project
plans will achieve the objectives set forth
therein.

Assessment

Mission-critical systems

a. The entity's definition of mission-critical
systems (In defining mission-critical,
the entity included, as applicable, sys-
tems—whether developed and maint-
tained in-house or by an outside service
organization—related to clearing and
settlement, customer segregation, net
capital, minimum financial require-
ments, financial reporting, and payroll,
among other things.)

b. Process for identifying and actual iden-
tification of systems (including af-
fected software and hardware) that the
entity has determined are mission-crit-
ical systems

c. Process for identifying and actual iden-
tification of mission-critical systems
that the entity has determined present
a potential year 2000 problem (here-
inafter referred to as noncompliant)
(See footnote 1 of this report.)

Vendors, service providers, and
counterparties

d. Process for identifying and actual iden-
tification of vendors, service providers,
and counterparties (hereinafter collect-
ively referred to as third parties) that
the entity has determined to be signifi-
cant (as defined by the entity) in the
context of the entity's potential year
2000 problems

(continued)

4. For purposes of this report, vendors, service providers, and counterparties may include
affiliated entities.
Findings

<table>
<thead>
<tr>
<th>Procedure</th>
<th>No</th>
<th>Exception</th>
<th>Exception</th>
<th>N/A</th>
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<tbody>
<tr>
<td>e. Process for identifying and actual identification of significant third parties with respect to which the entity has determined either (1) the third party’s lack of year 2000 readiness is expected to result in its inability to continue to provide goods and services or perform in the time and manner required, or (2) insufficient information is available to the entity to make an assessment as to the significant third party’s year 2000 readiness</td>
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Electronic Interfaces

f. Process for identifying and actual identification of internal and external electronic interfaces (hereinafter collectively referred to as interfaces) that the entity has determined to be significant (as defined by the entity) in the context of the entity’s potential year 2000 problems

|                                                                       |    |           |           |     |

Remediation strategy

Mission-critical systems

h. Plans for repairing or replacing each noncompliant mission-critical system (including affected hardware and software).

|                                                                       |    |           |           |     |

i. The date by which each noncompliant mission-critical system is expected to be year 2000 ready and either (1) a determination by the entity that such date is prior to the date that the entity expects the mission-critical system to fail, or (2) plans for resolving situations where mission-critical systems are not expected to be year 2000 ready before failure

|                                                                       |    |           |           |     |

Third Parties

j. Plans for resolving situations in which either (1) a significant third party’s as-
<table>
<thead>
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<th>Procedure</th>
<th>Findings</th>
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<tr>
<td>sessed lack of year 2000 readiness is expected to result in its inability to provide goods and services or perform in the time and manner required, or (2) insufficient information is available to the entity to make an assessment as to the significant third party’s year 2000 readiness</td>
<td>No Exception Exception N/A</td>
</tr>
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</table>

**Interfaces**

k. Plans for repairing or replacing each significant noncompliant interface (including affected hardware and software) | No Exception Exception N/A |

l. The date by which each significant noncompliant interface is expected to be year 2000 ready and either (1) a determination by the entity that such date is prior to the date that the entity expects the significant interfaces to fail or (2) plans for addressing situations in which significant interfaces are not expected to be year 2000 ready before failure | No Exception Exception N/A |

**Staffing**

m. Identification of staff resources needed, including the assignment of existing employees and/or hiring of new employees or contractors to implement the year 2000 project plans | No Exception Exception N/A |

n. Process to evaluate staffing requirements on an ongoing basis throughout the term of the project | No Exception Exception N/A |

**Testing**

o. Plans for testing year 2000 project efforts relating to each mission-critical system and significant interface (including affected hardware and software) as follows:

(1) Internal testing | No Exception Exception N/A |

(2) Point-to-point testing | No Exception Exception N/A |

(3) Industry-wide testing by Futures Industry Association | No Exception Exception N/A |

(continued)
Findings

Procedure

(4) Industry-wide testing in Securities Industry Association Tier 1

p. Process for reporting results of testing (including exceptions) identified in item o above to members of management assigned oversight responsibility for the implementation of the year 2000 project plans (See item s below.)

Contingency plans

q. Plans for addressing unexpected failures or unsuccessful remediation efforts of mission-critical systems or significant interfaces and unexpected inability of significant third parties to continue to provide goods and services or perform in the time and manner required due to lack of year 2000 readiness

Timetable

r. Timetable with milestones for completion of the key elements (assessment, implementation of remediation strategy, staffing, testing, and contingency planning) of the entity's year 2000 project plans

Management Oversight

s. Specific identification of the member(s) of management who have been assigned oversight responsibility for the implementation of the year 2000 project plans

Monitoring

t. Procedures for reporting the progress of the year 2000 project efforts to members of management assigned oversight responsibility for the implementation of the year 2000 project plans (See item s above.)

u. Procedures for reporting the progress of the year 2000 project efforts, includ-
<table>
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<tr>
<th>Procedure</th>
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<tbody>
<tr>
<td>v. Procedures for evaluating the progress of the year 2000 project efforts, including testing thereof, and making revisions to the year 2000 project plans as necessary</td>
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</table>

3. We compared the information described in items 2a to 2v with the corresponding information in Form BD-Y2K and found it to be in agreement.

4. We [read minutes of meetings of the board of directors, or made inquiries of individuals in attendance at meetings of the board of directors] and noted that the board of directors of the entity approved the year 2000 project plans. We compared this information with the corresponding information in Form BD-Y2K and found it to be in agreement.

5. We [read minutes of meetings of the board of directors, or made inquiries of individuals in attendance at meetings of the board of directors] and noted that the board of directors has approved the commitment of financial resources determined by management to be sufficient to accomplish the objectives of the entity's year 2000 project plans. We compared this information with the corresponding information in Form BD-Y2K and found it to be in agreement. In performing this procedure, we did not evaluate the adequacy of the resources determined by management to be sufficient to accomplish the objectives of the year 2000 project plans.

6. We obtained from management a list of business units considered by the entity (continued)

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5. As used in this report, board of directors refers to the board of directors, its designee committee for addressing year 2000 matters, or group equivalent to the board of directors or designee committee.

6. The entity's list of significant business units includes profit centers as well as support units such as treasury, accounting, payroll and human resources, order entry and trade execution, clearance and settlement, and regulatory reporting.
Procedure to be significant, and performed the following procedures:

**Assessment**

a. We inquired of management of five randomly selected (or 100 percent if less than five) significant business units (see list below), and obtained written representation therefrom, as to whether the identification of mission-critical systems included in the entity's year 2000 project plans included all systems that they considered critical to the continuation of operations in their respective business unit (see item 2b above). An exception would be reported if, as a result of this procedure, management of a significant business unit identified systems that they considered critical to the continuation of operations in their respective business unit that are not included in the entity's year 2000 project plans.

[List the five business units here.]

b. We inquired of management of five randomly selected (or 100 percent if less than five) significant business units (see list below), and obtained written representation therefrom, as to whether the identification of significant third parties included in the entity's year 2000 project plans included all third parties that they considered critical to the continuation of operations in their respective business unit (see item 2d above). An exception would be reported if, as a result of this procedure, management of a significant business unit identified significant third parties that they considered critical to the continuation of operations in their respective business unit that are not included in the entity's year 2000 project plans.
c. We inquired of information technology management of five randomly selected (or 100 percent if less than five) significant business units (see list below), and obtained written representation therefrom, as to whether the identification of interfaces included in the entity's year 2000 project plans included all interfaces that they considered critical to the continuation of operations in their respective business unit (see item 2f above). An exception would be reported if, as a result of this procedure, information technology management of a significant business unit identified interfaces that they considered critical to the continuation of operations in their respective business unit that are not included in the entity's year 2000 project plans.

[List the five business units here.]

e. We read contracts or other written evidence of engagements with five randomly selected (or 100 percent if less than five) individuals (not employees) or entities that were contracted to implement year 2000 project activities. We compared this information with the corresponding information in the year

(continued)
Findings

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<tr>
<th>Procedure</th>
<th>No</th>
<th>Exception</th>
<th>Exception</th>
<th>N/A</th>
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<tbody>
<tr>
<td>2000 project plans and found them to be in agreement.</td>
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</table>

**Testing**

f. We read [reports to or summaries of meetings attended by] the individual(s) of the management team with oversight responsibility for the execution of the year 2000 project plans indicating that the status of testing of mission-critical systems and significant interfaces is being tracked and any delays in schedule are being identified.

g. We obtained written representation from the individual(s) of the management team with oversight responsibility for the execution of the year 2000 project plans that the status of testing of mission-critical systems and significant interfaces is being tracked and any delays in schedule are being identified.

**Monitoring**

h. We [read minutes of meetings of the board of directors, or made inquiries of individuals in attendance at meetings of the board of directors] and noted that, as called for in the year 2000 project plans, the board of directors is receiving periodic updates of the status of the implementation progress of the year 2000 project plans.

i. We read [reports to or summaries of meetings attended by] the individual(s) of the management team with oversight responsibility for executing the year 2000 project plans indicating that modifications to the year 2000 project plans that they have determined are necessary, including those found to be necessary as a result of testing or delays in schedule, have been made.

j. We obtained written representation from the individual(s) of the manage-
Findings

<table>
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<tr>
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<td>mental team with oversight responsibility for executing the year 2000 project plans that modifications to the year 2000 project plans that they have determined are necessary, including those found to be necessary as a result of testing or delays in schedule, have been made.</td>
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7. We compared the information described in items 6a to 6j with the corresponding information in Form BD-Y2K and found it to be in agreement.

[Include description of any exceptions.]

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on the entity's assertions referred to in the introductory paragraph of this report. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. Our procedures also do not provide assurance that the entity is or will be year 2000 ready, that its year 2000 project plans will be successful in whole or in part, or that parties with which the entity does business will be year 2000 ready.

This report is intended solely for the information and use of the Board of Directors and Management of ABC Futures Commission Merchant/Broker-Dealer, the Commodity Futures Trading Commission, the Securities and Exchange Commission, and ABC Futures Commission Merchant/Broker-Dealer's designated self-regulatory organizations and is not intended to be and should not be used by anyone other than these specified parties.

[Signed]

[City]
[Date]
APPENDIX E

Report on Internal Control Required by CFTC Regulation 1.16, Modified to Limit the Scope of the Report for the Year 2000 Issue

The following is an illustration of the independent auditor's report on internal control required by Commodity Futures Trading Commission (CFTC) Regulation 1.16, modified to limit the scope of the report for the Year 2000 Issue.

Board of Directors
ABC Commodities Corporation:

In planning and performing our audit of the consolidated financial statements of ABC Commodities Corporation (the Corporation) for the year ended December 31, 19X1, we considered its internal control, including control activities for safeguarding customer and firm assets, in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements and not to provide assurance on internal control.

Also, as required by Regulation 1.16 of the Commodity Futures Trading Commission (CFTC), we have made a study of the practices and procedures followed by the Corporation including tests of such practices and procedures that we considered relevant to the objectives stated in Regulation 1.16 in making the following:

1. The periodic computations of minimum financial requirements pursuant to Regulation 1.17

2. The daily computations of the segregation requirements of section 4d(2) of the Commodity Exchange Act and the regulations thereunder, and the segregation of funds based on such computations

3. The daily computations of the foreign futures and foreign options secured amount requirements pursuant to Regulation 30.7 of the CFTC

The management of the Corporation is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judg-
ments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the CFTC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Corporation has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit preparation of financial statements in accordance with generally accepted accounting principles. Regulation 1.16 lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, errors or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including controls for safeguarding customer and firm assets, that we consider to be material weaknesses as defined above.¹

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the CFTC to be adequate for its purposes in accordance with the Commodity Exchange Act and related regulations, and that prac-

¹ If conditions believed to be material weaknesses are disclosed, the report should describe the weaknesses that have come to the auditor's attention and may state that these weaknesses do not affect the report on the financial statements. The last sentence of the fifth paragraph of the report should be modified as follows:

However, we noted the following matters involving the [control environment, accounting system, control activities, or control activities for safeguarding customer and firm assets] and its [their] operation that we consider to be material weaknesses as defined above. These conditions were considered in determining the nature, timing, and extent of the procedures to be performed in our audit of the consolidated financial statements of the Corporation for the year ended December 31, 19X1, and this report does not affect our report thereon dated February 15, 19X2. [A description of the material weaknesses that have come to the auditor's attention and corrective action.]
tices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, except as discussed below, we believe that the Corporation's practices and procedures were adequate at December 31, 19X1, to meet the CFTC's objectives.\(^2\)

CFTC Advisory No. 17-98, *Year 2000 Problem—Reporting and Disclosure Requirements*, as amended by CFTC Advisory No. 42-98, *Year 2000 Reporting Requirements For Certified Public Accountants*, states that a "year 2000 problem," as defined therein, is a material inadequacy within the meaning of Regulation 1.16. Our procedures with respect to year 2000 problems will be limited to those specified in the American Institute of Certified Public Accountants' Statement of Position 98-8. A separate report will be issued on those procedures. CFTC Advisory No. 42-98 states that those procedures will satisfy the CFTC's regulatory requirements. Accordingly, our study will not provide assurance that year 2000 problems deemed by the CFTC to constitute a material inadequacy would be detected, that the Corporation is or will be year 2000 ready, that the Corporation's year 2000 project plans will be successful in whole or in part, or that parties with which the Corporation does business will be year 2000 ready.\(^3\)

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2. Whenever inadequacies are described, the report should modify the last sentence of the fifth paragraph as indicated in footnote 1 above. The report should also describe material inadequacies the auditor becomes aware of that existed during the period but were corrected prior to the end of the period, unless management already has reported them to the CFTC.

3. As discussed in CFTC Advisory No. 42-98, CFTC registrants meeting specified criteria are exempt from the requirement to file the accountant's agreed-upon procedures report that is the subject of this SOP. It is important to note that the exemption for any registrant may be revoked at the discretion of either the CFTC or the registrant's designated self-regulatory organization. The criteria specified in CFTC Advisory No. 42-98 (all of which must be met) are as follows.

   a. The entity is not a clearing member of an exchange.
   b. The entity carries no funds, accounts or positions for customers.
   c. The entity has no mission-critical systems that interface with other registrants or major market participants
   d. The entity's designated self-regulatory organization has not provided notice to it that its exemption has been revoked. Also, the CFTC's Division of Trading and Markets has not notified the entity that it will be required to file the agreed-upon procedures report that is the subject of this SOP.

Therefore, in reports on internal control relating to these exempt registrants, this paragraph would be replaced with the following paragraph.

CFTC Advisory No. 17-98, *Year 2000 Problem—Reporting and Disclosure Requirements*, as amended by CFTC Advisory No. 42-98, *Year 2000 Reporting Requirements For Certified Public Accountants*, states that a "year 2000 problem," as defined therein, is a material inadequacy within the meaning of Regulation 1.16. Pursuant to the exemption described in CFTC Advisory No. 42-98, we performed no procedures with respect to year 2000 problems. Accordingly, our study will not provide assurance that year 2000 problems deemed by the CFTC to constitute a material inadequacy would be detected, that the Corporation is or will be year 2000 ready, that the Corporation's year 2000 project plans will be successful in whole or in part, or that parties with which the Corporation does business will be year 2000 ready.
This report is intended solely for the information and use of the Board of Directors, management, the CFTC, and other regulatory agencies that rely on Regulation 1.16 of the CFTC, and should not be used for any other purpose.

Accounting Firm
New York, New York
February 15, 19X2
Securities Industry Year 2000
Agreed-Upon Procedures
Task Force

For the Auditing Standards Board
Deborah D. Lambert, Chair
James S. Gerson, Vice Chair
Andrew J. Capelli
Richard Dieter
John A. Fogarty
Norwood J. Jackson
Charles E. Landes

For the Stockbrokerage and
Investment Banking Committee
John J. Lynch, Chair
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For the SEC Regulations Committee
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Amelia A. Ripepi

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Director
Audit and Attest Standards
Gretchen Fischbach
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Audit and Attest Standards