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AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

October 15, 2007

**Attestation Engagements That
Address Specified Compliance
Control Objectives and Related
Controls at Entities That
Provide Services to Investment
Companies, Investment
Advisers, or Other Service
Providers**

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Auditing Standards Board*

**STATEMENT OF
POSITION 07-2**



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NOTE

This Statement of Position (SOP) is an interpretive publication and represents the recommendations of the Chief Compliance Officers Task Force of the AICPA Auditing Standards Board (ASB) regarding the application of Statements on Standards for Attestation Engagements (SSAE) primarily to examination engagements in which a practitioner reports on the suitability of the design and operating effectiveness of a service provider's controls in achieving specified compliance control objectives. Examples of the service providers addressed by this SOP are investment advisers, custodians, transfer agents, administrators, and principal underwriters that provide services to investment companies (including business development companies), investment advisers, or other service providers (*user organizations*). A practitioner's report on the suitability of the design and operating effectiveness of a service provider's controls in achieving specified compliance control objectives is used primarily by user organizations because aspects of a user organization's compliance or internal control over compliance with laws, regulations, and rules may be affected by or include controls at service providers. The ASB has found the recommendations in this SOP to be consistent with existing standards covered by Rule 202, *Compliance With Standards*, of the AICPA Code of Professional Conduct (AICPA, *Professional Standards*, vol. 2, ET sec. 202.01).

Interpretive publications are not as authoritative as pronouncements of the ASB; however, if a practitioner does not apply the attestation guidance included in this SOP, the practitioner should be prepared to explain how he or she complied with the provisions of SSAE addressed by this SOP.

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Attestation Engagements That Address Specified Compliance Control Objectives and Related Controls at Entities That Provide Services to Investment Companies, Investment Advisers, or Other Service Providers

Introduction and Background

1. In December 2003, the Securities and Exchange Commission (SEC) adopted Rule 38a-1 under the Investment Company Act of 1940 and Rule 206(4)-7 under the Investment Advisers Act of 1940. The rules were adopted to protect investors by ensuring that (a) each investment company registered with the SEC under the Investment Company Act of 1940, and each business development company¹ (collectively, funds) has an internal program to enhance compliance with federal securities laws² and (b) each investment adviser registered with the SEC has an internal program to enhance compliance with the Investment Advisers Act of 1940, including SEC rules issued thereunder.
2. Many operations of funds and, in some instances, operations of investment advisers are carried out by entities that provide services to the funds or investment advisers. In this Statement of Position (SOP), such entities are termed *service providers*. Service providers have their own compliance policies and procedures that may affect or be part

1. A business development company is a closed-end investment company that, among other requirements, has elected to be subject to the provisions of certain sections of the Investment Company Act of 1940.

2. Rule 38a-1 defines *federal securities laws* to include the Securities Act of 1933, the Securities Exchange Act of 1934, the Sarbanes-Oxley Act of 2002, the Investment Company Act of 1940, the Investment Advisers Act of 1940, Title V of the Gramm-Leach-Bliley Act, any rules adopted by the Securities and Exchange Commission (SEC) under any of these statutes, the Bank Secrecy Act as it applies to funds, and any rules adopted thereunder by the SEC or the Department of the Treasury.

of a fund's or investment adviser's compliance or internal control over compliance with federal securities laws, individual statutes or provisions thereof, or corresponding SEC rules (*federal securities laws or elements thereof*).³ Rule 38a-1 requires each fund to adopt and implement written policies and procedures reasonably designed to prevent violation of federal securities laws by the fund or any of the following service providers named in the rule: investment advisers, principal underwriters, administrators, and transfer agents. Accordingly, a fund's compliance policies and procedures provide for oversight of the compliance procedures performed by the named service providers. Further, Rule 206(4)-7 requires an investment adviser to adopt and implement written policies and procedures reasonably designed to prevent violation by the investment adviser and its supervised persons of the Investment Advisers Act of 1940 and SEC rules issued thereunder. In this SOP, the term *service providers* refers to the service providers named in Rule 38a-1 as well as other service providers, such as custodians. The term *user organization* generally refers to a fund or investment adviser that uses the services of a service provider. In some instances, a single entity may be a service provider *and* a user organization. For example, Administrator A, in its capacity as a service provider to a fund, may be responsible for monitoring whether the fund's registration statement filed with the SEC complies with SEC disclosure requirements, but may subcontract that function to Administrator B that specializes in that area. In this situation, Administrator A is also a user organization because it uses the services of Administrator B. In this SOP, Administrator B is referred to as a *subservice provider*. In applying the guidance in this SOP, a subservice provider is considered a service provider.

3. In this Statement of Position (SOP), *federal securities laws or elements thereof* is defined as federal securities laws (see footnote 2), individual statutes or provisions thereof, or corresponding SEC rules.

3. Among other provisions, the rules mentioned in paragraph 1 require funds and investment advisers to:
 - Adopt and implement written policies and procedures⁴ reasonably designed to prevent violation of, in the case of funds, federal securities laws and, in the case of investment advisers, the Investment Advisers Act of 1940, including SEC rules issued thereunder
 - Review those policies and procedures at least annually for their adequacy and the effectiveness of their implementation⁵
 - Designate a chief compliance officer (CCO) to be responsible for administering the policies and procedures (for funds, the CCO must report directly to the fund's board of directors)
4. SEC Release Nos. IC-26299 and IA-2204 adopting the rules note that it may be impractical for a fund or its CCO to directly review all of its named service providers' policies and procedures, particularly if one or more of the service providers are not affiliated with the fund. In these circumstances, the SEC considers the fund to have satisfied the requirements of Rule 38a-1 if the fund's board of directors, in evaluating whether to approve the service provider's compliance program, uses a "third-party report" on the

4. Rule 38a-1 and Rule 206(4)-7 use the term *policies and procedures* to refer to the principles and activities an entity adopts and implements to prevent violation of federal securities laws or elements thereof. In this SOP, the term *controls* is used to refer to the policies and procedures an entity adopts and implements to achieve specified compliance control objectives.

5. The annual review requirement is imposed upon the fund or investment adviser. Specifically, the rules do not require the fund or adviser to engage an independent accountant to attest to management's annual review or to perform a separate evaluation of any aspect of the fund's or investment adviser's compliance policies and procedures. Further, the rules do not require that the annual review employ a specific framework or methodology for evaluating the effectiveness of a fund's or investment adviser's compliance policies and procedures. Lastly, there is no requirement that annual or other compliance reports prepared by chief compliance officers of funds or investment advisers be filed with the SEC; however, the SEC may request such reports in connection with their inspection and examination programs of funds and investment advisers or in other circumstances.

service provider's policies and procedures.⁶ In the United States fund industry, in connection with the audit of a fund's financial statements, a number of service providers are accustomed to engaging an independent auditor to report on the suitability of the design and operating effectiveness of controls at the service provider that may be relevant to the fund's internal control over financial reporting. These engagements are performed under AU section 324, *Service Organizations* (AICPA, *Professional Standards*, vol. 1), as amended, and reports issued thereunder are used by the funds' independent auditor when auditing the fund's financial statements. Similarly, since the adoption of the rules in December 2003, service providers have received requests from funds and investment advisers for information and assurance regarding the suitability of the design and operating effectiveness of the service provider's controls in achieving compliance control objectives. Also, in some circumstances, subservice providers (service providers that provide services to other service providers, for example, a service organization that reports fund share balances and transactions of retirement plan participants, in aggregate, to a fund's transfer agent and maintains records thereof) have received similar requests from service providers. Such information assists funds and investment advisers in fulfilling their responsibilities to perform an annual review of specified compliance activities and assists service providers and subservice providers in their consideration of their own controls.

5. For specific information about the rules, readers should refer to "Compliance Programs of Investment Companies and Investment Advisers" at the United States SEC Web site at <http://www.sec.gov/rules/final/ia-2204.htm>. The following is a table that briefly summarizes significant provisions of the rules.

6. The SEC release states that the third party report must describe the service provider's compliance program as it relates to the types of services provided to the fund, discuss the types of compliance risks material to the fund, and assess the adequacy of the service provider's compliance controls. Information produced as a result of an engagement covered by this SOP may be used by the fund, in part, to meet these provisions. The report must be provided to the fund no less frequently than annually.

SEC Rule and (Section Number)	Rule 38a-1 (§17 CFR 270.38a-1)	Rule 206(4)-7 (§17 CFR 275.206(4)-7) and Amendments to Rule 204-2 (§17 CFR 275.204-2)
Applicable entity	Investment companies and business development companies (funds) must:	Investment advisers must:
Nature of the policies and procedures to be adopted and implemented	Adopt and implement written policies and procedures reasonably designed to prevent violation of federal securities laws by the fund, including policies and procedures that provide for oversight of compliance by each investment adviser, principal underwriter, administrator, and transfer agent (named service providers) of the fund.	Adopt and implement written policies and procedures reasonably designed to prevent violation, by the investment adviser and persons supervised by the investment adviser, of the Investment Advisers Act of 1940 and the SEC rules issued thereunder.
Board approval of policies and procedures	Obtain approval by the fund's board of directors of the fund's policies and procedures and those of each of the named service providers.	
Annual review of policies and procedures	Review, no less frequently than annually, (1) the adequacy of the policies and procedures of the fund and each of the named service providers and (2) the effectiveness of their implementation.	Review, no less frequently than annually, (1) the adequacy of the policies and procedures established pursuant to the rule and (2) the effectiveness of their implementation.
Individual responsible for administering policies and procedures	Designate an individual to be the fund's CCO, responsible for administering the policies and procedures adopted under paragraph (a) (1) of the rule. The designation and compensation of the CCO must be approved by the fund's board of directors, and the CCO may be removed only by action and approval of the fund's board of directors.	Designate an individual (who is a supervised person) to be the adviser's CCO, responsible for administering the policies and procedures that are adopted under paragraph (a) of the rule.

SEC Rule and (Section Number)	Rule 38a-1 (§17 CFR 270.38a-1)	Rule 206(4)-7 (§17 CFR 275.206(4)-7) and Amendments to Rule 204-2 (§17 CFR 275.204-2)
Applicable entity	Investment companies and business development companies (funds) must:	Investment advisers must:
Report to the board of directors	<p>The CCO must provide a written report to the fund's board of directors, no less frequently than annually, that addresses at a minimum:</p> <ul style="list-style-type: none"> • The operation of the fund's policies and procedures and those of each of the named service providers, any material changes made to those policies and procedures since the last report, and any material changes to the policies and procedures recommended as a result of the annual review. • Each <i>material compliance matter</i>⁷ that occurred since the date of the last report. <p>After the initial report, subsequent CCO reports are expected to cover the period since the date of the last report.</p>	

7. SEC Rule 38a-1 defines a *material compliance matter* as any compliance matter about which the fund's board of directors would reasonably need to know to oversee fund compliance and that involves, without limitation, (a) a violation of federal securities laws (as defined in Rule 38a-1) by the fund, its investment adviser, principal underwriter, administrator, or transfer agent (or officers, directors, employees, or agents thereof); (b) a violation of the policies and procedures of the fund, its investment adviser, principal underwriter, administrator, or transfer agent; or (c) a weakness in the design or implementation of the policies and procedures of the fund, its investment adviser, principal underwriter, administrator, or transfer agent.

Objective of the Examination Engagement

6. Because federal securities laws encompass a significantly comprehensive set of obligations and responsibilities, the compliance control objectives presented by management of the service provider ordinarily would not include all conceivable compliance control objectives related to federal securities laws or elements thereof. Also, although Rule 38a-1 requires a fund's CCO to include in the fund's annual compliance report information concerning any material compliance matter(s) that occurred during the relevant period, the objective of the examination engagement described in paragraphs 1–33 of this SOP is not to identify and report any material compliance matter(s) that may have existed at the service provider during the period covered by the practitioner's report. Rather, the objective of the examination engagement described in paragraphs 1–33 of this SOP is for the practitioner to report on the suitability of the design (at the end of a specified period) and the operating effectiveness (during the specified period) of the service provider's controls in achieving the compliance control objectives specified by management of the service provider.
7. AT section 101, *Attest Engagements* (AICPA, *Professional Standards*, vol. 1), as amended, allows a practitioner to report on either management's assertion or on the subject matter to which it relates.⁸ Paragraph .64 of AT section 101 indicates that when the practitioner reports on an assertion, the assertion should either be (a) bound with or accompany the practitioner's report or (b) clearly stated in the practitioner's report. In view of the intended use of the information produced in connection with examination engagements covered by this SOP, practitioners are strongly encouraged to report on management's assertion rather than on the subject matter to ensure that management's assertion will be available to users of the report.

8. When conditions exist that individually or in combination result in one or more material misstatements or deviations from the criteria, to most effectively communicate with the reader of the report, the practitioner should ordinarily express his or her conclusion directly on the subject matter, not on the assertion.

Subject Matter of the Examination Engagement

8. The examination engagement described in paragraphs 1–33 of this SOP is performed in accordance with AT section 101. AT section 101 enables a practitioner to design an engagement and report on subject matter (or an assertion thereon) other than financial statements. The subject matter of the engagement described in paragraphs 1–33 of this SOP is the suitability of the design and operating effectiveness of a service provider’s controls directed at achieving specified compliance control objectives. Use of the practitioner’s examination report is restricted to the CCOs, management, boards of directors, and independent auditors of the service provider and of the entities that use the services of the service provider because these users should have the requisite knowledge and familiarity with the service provider’s organization to understand the context of the examination report.

Management’s Responsibilities

9. In an examination engagement in which the practitioner reports on the suitability of the design and operating effectiveness of controls to achieve specified compliance control objectives, management of the service provider is responsible for:
 - a. Specifying compliance control objectives and related controls that are relevant to the services provided to user organizations and their internal control over compliance with federal securities laws or elements thereof.
 - b. Preparing and providing the practitioner with a written description of the specified compliance control objectives and related controls referred to in paragraph 9a (see Appendix A-4 of this SOP, “Illustrative Service Provider’s Description of Specified Compliance Control Objectives and Related Controls”). If applicable, the written description should include the applicable information described in paragraphs

16–17 of this SOP concerning compliance control objectives and related controls of subservice providers.

- c. Preparing and providing the practitioner with a written assertion regarding the suitability of the design and operating effectiveness of the controls in achieving the specified compliance control objectives⁹ (see Appendix A-3 of this SOP for an illustrative management assertion). The criteria management use in evaluating the suitability of the design and operating effectiveness of the controls included in management’s description and in making its assertion are the specified compliance control objectives.
- d. Identifying and presenting a list of user control considerations if the application of controls by user organizations is necessary to achieve the specified compliance control objectives. In certain circumstances, a service provided by a service provider may be designed with the assumption that certain controls will be implemented by user organizations. For example, the service may be designed with the assumption that user organizations will have controls in place for authorizing transactions before they are sent to the service provider for processing. If such user controls are required to achieve the stated compliance control objectives, the service provider should describe them either in its written description or in a separate list accompanying the description.
- e. Preparing and providing the practitioner with a representation letter that ordinarily includes the items listed in paragraph 26a–j of this SOP.

9. Paragraph 9 of AT section 101, *Attest Engagements* (AICPA, *Professional Standards*, vol. 1), as amended, states that a practitioner should ordinarily obtain a written assertion in an examination engagement, whether reporting on the subject matter or reporting on a written assertion.

Criteria

10. Paragraph .23 of AT section 101 states, in part, that “The practitioner shall perform the engagement only if he or she has reason to believe that the subject matter is capable of evaluation against criteria that are suitable....” Paragraph .24 of AT section 101, in turn, indicates that suitable criteria must have each of the following attributes: objectivity, measurability, completeness, and relevance. In the examination engagement covered by this SOP, the criteria to be used to evaluate the suitability of the design and operating effectiveness of the controls are the specified compliance control objectives. The practitioner should ensure that the language used by management to describe the specified compliance control objectives included in the written description permits people having competence in and using the same measurement criterion to ordinarily obtain materially similar measurements (paragraph .29 of AT section 101). Consequently, practitioners should not perform an engagement covered by this SOP if the criteria are so subjective or vague that reasonably consistent measurements, qualitative or quantitative, of the subject matter cannot ordinarily be obtained. For example, the following compliance control objective ordinarily would be too subjective for evaluation:

Advertising and sales literature is frequently and properly reviewed.

The following revision of this control objective improves its objectivity and measurability:

At the end of each quarter, advertising and sales literature is reviewed by the service provider’s compliance officer for conformity with the service provider’s written policies.

Furthermore, although this SOP does not require all service providers to present identical compliance control objectives for similar business activities or services (for example, transfer agency and fund administration) included in the scope of the attestation engagement, compliance control objectives or elements thereof that pertain to those business activities or services and are relevant to

user organizations should not be omitted if management of the service provider or the practitioner becomes aware of deficiencies in the suitability of the design or operating effectiveness of controls that would prevent the achievement of such objectives. See also related guidance in paragraphs 12b and 21–22 of this SOP.

Reference to Laws, Regulations, and Rules

11. The written description of specified compliance control objectives and related controls prepared by management of the service provider should not include general or broad references¹⁰ to federal securities laws or elements thereof that might imply that the specified compliance control objectives completely address or directly correspond to such laws or elements thereof. Such references may mislead user organizations and others because most laws, regulations, and rules contain numerous and detailed provisions, all of which may not be addressed by the compliance control objectives and related controls. Management of the service provider may, however, include a citation from such federal securities laws or elements thereof within the specified compliance control objective, in the written description, if the citation is sufficiently specific. An example is a citation containing the specific section or subsection of the law, regulation, or rule corresponding to the specified compliance control objective as in “For money market mutual funds, investments are monitored on a weekly basis for compliance with the portfolio maturity and quality provisions of SEC Rule 2a-7c.2 and 2a-7c.3, respectively.”

10. For example, the written description should not include a table that aligns the specified compliance control objectives with generally or broadly described federal securities laws or elements thereof. Such a presentation could cause readers to incorrectly conclude that the specified control objectives address all provisions of the federal securities laws or elements thereof referenced in the table.

Practitioner's Responsibilities

12. For the practitioner to express an opinion on the suitability of the design¹¹ and operating effectiveness of a service provider's controls in achieving specified compliance control objectives, the practitioner should:
 - a. Obtain an understanding of the nature of the services provided by the service provider to user organizations and determine whether the specified compliance control objectives included in management's description are relevant to the services provided. Methods for obtaining an understanding of the services provided include:
 - Reading representative contracts between the service provider and user organizations, marketing or other material provided to user organizations, reports developed by internal auditors, and correspondence to and from regulatory authorities; and
 - Making inquiries of management and other service provider personnel.
 - b. Obtain a written description prepared by management of the service provider of the specified compliance control objectives and related controls that are relevant to the services provided to user organizations and their internal control over compliance with federal securities laws or elements thereof (see Appendix A-4 of this SOP, "Illustrative Service Provider's Description of Specified Compliance Control Objectives and Related Controls"). If the practitioner concludes that the description is materially misstated or misleading in the circumstances, the practitioner should inform the service provider's management and request that the description be amended. If management refuses to amend the description in a manner that addresses

11. A control is suitably designed if individually, or in combination with other controls, it is likely to prevent or detect errors that could result in the nonachievement of specified compliance control objectives when the described controls are complied with satisfactorily.

the practitioner's concerns, the practitioner should consider withdrawing from the engagement.

- c. Consider the linkage between the controls and the specified compliance control objectives and the ability of the controls to prevent or detect errors related to the specified compliance control objectives.
- d. Obtain sufficient evidence regarding the suitability of the design and operating effectiveness of the controls in achieving the specified compliance control objectives. Evidence regarding the suitability of design is obtained by performing procedures that may include inquiry of appropriate service provider personnel, observation of the application of specific controls, inspection of documents and reports, and tracing transactions relevant to the subject matter of the engagement through the service provider's applicable information system. In instances in which the application of specific user controls is needed to achieve a specified compliance control objective, the practitioner should determine whether such user controls have been identified and presented (see paragraph 9d). In testing the operating effectiveness of controls, the practitioner obtains evidence about how the controls were applied at relevant times during the period under examination, the consistency with which they were applied, and by whom or what means they were applied. Tests of the operating effectiveness of controls ordinarily include procedures such as inquiry of appropriate service provider personnel; inspection of documents, reports, or electronic files indicating performance of the control; observation of the application of the control; and reperformance of the application of the control by the practitioner.
- e. Ordinarily, obtain a written assertion prepared by management of the service provider regarding the suitability of the design and operating effectiveness of the service provider's controls in achieving the specified compliance control objectives (see Appendix A-3 of this SOP for an illustrative management

15. Unless the compliance control objectives have been designated by an outside party, such as a regulatory authority or a user group, management of the service provider is responsible for specifying the compliance control objectives and related controls that are the subject of the engagement. In establishing the compliance control objectives and related controls, management of the service provider should consider:
 - a. The nature of the services provided to user organizations
 - b. The service provider's contractual obligations to user organizations
 - c. The information and assurance needs of user organizations, including the relevancy of the compliance control objectives and related controls to the services provided to user organizations and their internal control over compliance with federal securities laws or elements thereof
 - d. The compliance matters and areas identified in the SEC Release¹² that are relevant to the services provided to user organizations (see Appendix D of this SOP for a list of these compliance matters and areas)

Further, when circumstances permit, discussions between management of the service provider and user organizations are advisable in determining the compliance control objectives intended to address the needs of user organizations.

16. Service providers may have contractual or other arrangements with one or more subservice providers or other parties that perform administrative, computer operations, transaction processing, recordkeeping, or other activities on their behalf. In these circumstances, management of the service provider determines whether the subservice provider's relevant control objectives and related controls are to be included or excluded from its written description of specified compliance control objectives and related controls. Although the inclusive method provides more

12. See SEC Release Nos. IC-26299 and IA-2204 adopting Rules 38a-1 and 206(4)-7, respectively (Section II.A., *Adoption and Implementation of Policies and Procedures*).

information to user organizations, it may not be appropriate or feasible in many or all instances. In determining which approach to use, management of the service provider should consider (a) the nature and extent of information about the subservice provider from which user organizations would derive benefit, (b) the degree of responsibility management would assume by including information about the subservice organization in its description and accompanying written assertion, and (c) the practical difficulties entailed in implementing the inclusive method. Whether the subservice provider's relevant control objectives and related controls are included or excluded from the written description, the description should include a brief statement of the functions and nature of the services performed by the subservice provider. Ordinarily, disclosure of the identity of the subservice provider is not required. If, however, management of the service provider determines that the identity of the subservice provider would be relevant to user organizations, the name of the subservice provider may be included in the written description provided that there are no prohibitions against doing so, by contract or otherwise, and any necessary approvals have been obtained by the service provider. Also, when included, the written description should clearly differentiate between controls of the service provider and controls of the subservice provider.

17. If the subservice provider's relevant compliance control objectives and related controls are excluded, management of the service provider should state in the written description that the subservice provider's compliance control objectives and related controls are omitted from the description and, unless achievement of the compliance control objectives depends on controls at the subservice provider, that the compliance control objectives included in the written description include only those objectives that the service provider's controls are intended to achieve. Reporting guidance for situations in which the service provider excludes the subservice provider's compliance control objectives and related controls from the service provider's written description is presented in paragraph 31 of this SOP.

18. As noted in paragraph 13, ordinarily in the examination engagement described in this SOP, the relevant aspects of a service provider's internal control pertaining to its control environment, risk assessment, and monitoring would not be presented in the form of compliance control objectives; however, management of the service provider is not precluded from presenting those aspects in the form of compliance control objectives.

Evaluating Deficiencies in Controls

19. Paragraph .24 of AT section 101 states, in part, that criteria are the standards or benchmarks against which the practitioner evaluates the subject matter. In this SOP, the criteria used by the practitioner to evaluate the suitability of the design and operating effectiveness of the controls included in management's description are the specified compliance control objectives. The practitioner should evaluate the results of the procedures he or she performed to obtain evidence about the suitability of the design and operating effectiveness of the controls and determine the significance of any identified deficiencies in controls, individually and in combination, to the achievement of the specified compliance control objectives. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if it operates as designed, the control objective is not always met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.
20. The following are examples of factors that are relevant in evaluating the significance of identified deficiencies in controls:
- The existence of effective compensating controls that have been tested and evaluated and limit the severity of the deficiency

- The significance of the control(s) to achieving the compliance control objective
- The existence of multiple deficiencies in controls that, in combination, may be significant to the achievement of a compliance control objective, even if the deficiencies are individually insignificant to the achievement of the compliance control objective

The practitioner may conclude that the specified compliance control objective has been achieved even if a deficiency or deficiencies in controls have been identified. However, if, after performing his or her procedures, the practitioner concludes that the specified compliance control objective was not achieved, the practitioner should modify his or her report. See paragraph 29 of this SOP for related reporting guidance.

User Organizations Affected by a Service Provider’s Noncompliance With Federal Securities Laws or Elements Thereof

21. In the course of performing procedures at a service provider, a practitioner may become aware of a matter or matters constituting noncompliance with federal securities laws or elements thereof (including material compliance matters) that occurred during the period covered by the practitioner’s report and relate to business activities or services included in the scope of the attestation engagement. Unless the instance(s) of noncompliance are clearly inconsequential, the practitioner should obtain an understanding of:

- The nature of the noncompliance matter(s),
- The cause(s) of such,
- The period during which the noncompliance matter(s) existed or occurred, and
- The nature of any remediation activities taken to subsequently achieve compliance or the status of any remediation activities the service provider plans to take to achieve compliance.

22. Further, the practitioner should determine whether information about the noncompliance matter(s) has been communicated to affected user organizations. If management of the service provider has not communicated this information and is unwilling to do so, and the practitioner believes the nature of the noncompliance matter(s) could be significant to user organizations, the practitioner should inform management and those charged with governance of the service provider of the circumstances. If management and those charged with governance of the service provider do not respond in an appropriate manner, the practitioner should consider withdrawing from the engagement. The practitioner generally is not required to confirm with the user organizations that the service provider has communicated such information. If the user organizations have been notified in writing, the practitioner should consider requesting a copy from the service provider of the written communication. In all cases, judgment should be used by the practitioner in considering the effect, if any, of all information obtained about the noncompliance matter(s) on (a) the written assertion provided by management of the service provider regarding the suitability of the design and operating effectiveness of controls in achieving the specified compliance control objectives; and (b) the practitioner's procedures and report.

Management Assertion

23. Paragraph .08 of AT section 101 defines an assertion as any declaration or set of declarations about whether the subject matter is based on or in conformity with the criteria selected. Paragraph .09 of AT section 101 provides the practitioner with additional information about a written assertion. For the examination engagement described in this SOP, whether reporting directly on the subject matter or on the assertion, the practitioner should ordinarily obtain a written assertion from management of the service provider regarding the suitability of the design and operating effectiveness of the service provider's controls in achieving the specified compliance control objectives. Appendix A-3 of this SOP contains an illustrative management assertion.

24. Management’s assertion regarding the suitability of the design and operating effectiveness of the controls should specify the “as of” date and period covered by management’s assertion. The determination of an appropriate period is at the discretion of management; however, to be useful to user organizations, the report ordinarily should cover a minimum reporting period of six months. The following are examples of factors that are relevant in establishing the reporting period:
- The anticipated needs of users of the report
 - The degree and frequency of changes in the service provider’s controls related to the specified compliance control objectives
 - The period needed to provide sufficient and appropriate evidence regarding the operating effectiveness of the controls

Management Representations

25. Paragraphs .59–.60 of AT section 101 state, in part:

59. During an attest engagement, the responsible party makes many representations to the practitioner, both oral and written, in response to specific inquiries or through the presentation of subject matter or an assertion. Such representations from the responsible party are part of the evidential matter the practitioner obtains.

60. Written representations from the responsible party ordinarily confirm representations explicitly or implicitly given to the practitioner, indicate and document the continuing appropriateness of such representations, and reduce the possibility of misunderstanding concerning the matters that are the subject of the representations. Accordingly, in an examination or a review engagement, a practitioner should consider obtaining a representation letter from the responsible party.

26. The representations that a practitioner considers appropriate generally will depend on the subject matter and circumstances of the engagement. For the purposes of this SOP, in addition to obtaining management’s written

assertion about the suitability of the design and operating effectiveness of the service provider's controls in achieving the specified compliance control objectives, the practitioner ordinarily would obtain the following written representations from management of the service provider in connection with the examination engagement described in paragraphs 1–33 of this SOP:

- a.* A statement acknowledging management's responsibility for:
 - The subject matter of the examination engagement; namely, the suitability of the design and operating effectiveness of the controls in achieving the specified compliance control objectives
 - Selecting the criteria used and determining the appropriateness of such criteria for its purposes, including selecting and presenting compliance control objectives that are relevant to the services provided to user organizations and their internal control over compliance with federal securities laws or elements thereof (practitioners may wish to include in the representation letter the definition of the term *federal securities laws or elements thereof* found in footnotes 2 and 3 of this SOP)
 - Its description of specified compliance control objectives and related controls
 - Its written assertion about the suitability of the design and operating effectiveness of the controls in achieving the specified compliance control objectives
 - Establishing and maintaining compliance and effective internal control over compliance with federal securities laws or elements thereof as they relate to the scope of the examination engagement, including establishing and maintaining controls that are suitably designed and operating effectively to achieve the specified compliance control objectives

- b.* A statement that management has disclosed to the practitioner all deficiencies of which it is aware in the design or operation of the service provider's internal control over compliance with federal securities laws or elements thereof, related to the scope of the attestation engagement, that existed during the period covered by the practitioner's report, including those for which management believes the cost of corrective action may exceed the benefits
- c.* A statement that management has disclosed to the practitioner any significant changes in the service provider's controls related to the scope of the attestation engagement made since the service provider's last examination
- d.* A statement that management has disclosed to the practitioner any instances of which it is aware of the service provider's noncompliance with federal securities laws or elements thereof, related to the scope of the attestation engagement, that existed during the period covered by the practitioner's report and that may affect one or more user organizations
- e.* A statement that management has disclosed to the practitioner all instances of which it is aware when the service provider's controls have not operated with sufficient effectiveness during the period covered by the practitioner's report to achieve the specified compliance control objectives
- f.* A statement that management has disclosed to the practitioner all known matters contradicting the assertion and any communications from attorneys, regulatory agencies, internal auditors, consultants, other practitioners, or third parties related to the service provider's compliance, or internal control over compliance, with federal securities laws or elements thereof during the period covered by the practitioner's report that may affect one or more user organizations

- g.* A statement that management has made available to the practitioner all records and other information it believes are relevant to the service provider's compliance, or internal control over compliance, with federal securities laws or elements thereof, related to the scope of the attestation engagement and the period covered by the practitioner's report
 - h.* A statement that management has responded fully to all inquiries made by the practitioner during the engagement
 - i.* A statement that management has disclosed all events of which it is aware that occurred subsequent to the period being reported on that would have a material effect on the subject matter (or management's assertion) to which the practitioner's report relates
 - j.* Statements regarding other matters the practitioner deems appropriate for inclusion in management's representations to the practitioner
27. If management refuses to furnish all the written representations that the practitioner deems necessary, the practitioner should consider the effects of such a refusal on his or her ability to express an opinion about the subject matter or assertion. If the practitioner believes that the representations are necessary to obtain sufficient evidence to express an opinion, management's refusal to furnish such evidence in the form of written representations constitutes a limitation on the scope of an examination sufficient to preclude an unqualified opinion and is ordinarily sufficient to cause the practitioner to disclaim an opinion or withdraw from an examination engagement. However, based on the nature of the representations not obtained or the circumstances of the refusal, the practitioner may conclude, in an examination engagement, that a qualified opinion is appropriate. Further, the practitioner should consider the effects of the refusal on his or her ability to rely on other representations made by management of the service provider.

Reporting

28. Appendix A-1 of this SOP contains an illustrative practitioner’s examination report on an assertion by management of a service provider regarding specified compliance control objectives and related controls. The illustrative report includes the required elements of a practitioner’s unqualified report on an assertion that are listed in paragraph .86 of AT section 101. Paragraph .85 of AT section 101 presents the required elements of a practitioner’s unqualified report on subject matter, and Appendix A, “Examination Reports,” of AT section 101 presents additional illustrative examination reports.
29. Paragraph 19 of this SOP notes that criteria are the standards or benchmarks against which a practitioner evaluates the subject matter, and in this SOP, the criteria for evaluating the suitability of the design and operating effectiveness of the controls are the specified compliance control objectives. If, after performing the procedures described in paragraphs 12–13 and 19–22 of this SOP, the practitioner concludes that the controls were not suitably designed or operating with sufficient effectiveness to provide reasonable assurance that the specified compliance control objectives were achieved, the practitioner should modify his or her report and include a brief factual description that will enable users of the report to understand the nature of the deficiency or deficiencies in controls. The matter or matters pertaining to the suitability of the design or operating effectiveness of controls and giving rise to a qualified or adverse opinion in a report on the examination engagement described in this SOP should be referred to as a deficiency or deficiencies. Further, paragraph .66 of AT section 101 states, in part, that “...if conditions exist that, individually or in combination, result in one or more material misstatements or deviations from the criteria, the practitioner should modify the report and, to most effectively communicate with the reader of the report, should ordinarily express his or her conclusion directly on the subject matter, not on the assertion.” Appendix B of this SOP contains an illustrative practitioner’s examination report containing a qualified opinion on a service provider’s controls

in achieving the specified compliance control objectives. In that illustrative report, the practitioner reports on the subject matter rather than on the assertion.

30. As noted in paragraph .72 of AT section 101, a practitioner may have reservations about the engagement (for example, a restriction on the scope of the engagement), the subject matter, and, if applicable, the assertion. When a practitioner has such reservations, he or she should exercise professional judgment in determining the significance of those reservations and the type of report to be issued. Paragraphs .71–.74 and .76–.77 of AT section 101 provide guidance in this area.
31. If a subservice provider’s compliance control objectives and related controls are excluded from the service provider’s written description of specified compliance control objectives and related controls (see paragraph 17 of this SOP), the scope paragraph of the practitioner’s report should be modified to:
 - Refer to the disclosure in the written description regarding the service provider’s use of a subservice provider and the functions and nature of the services performed by the subservice provider
 - State that the subservice provider’s compliance control objectives and related controls are omitted from the written description and that the practitioner’s examination did not extend to controls of the subservice provider

Appendix A-2 of this SOP contains an illustrative practitioner’s examination report on a service provider’s specified compliance control objectives and related controls when the service provider uses a subservice provider and the subservice provider’s control objectives and related controls are excluded from the description.

32. As noted in paragraph 17, situations may arise in which the service provider specifies compliance control objectives whose achievement depends on controls at a subservice provider. In those circumstances, if the service provider has excluded the subservice provider’s controls from the written description, the practitioner should modify the

scope and opinion paragraphs of his or her report to include the phrase “and subservice providers applied the controls contemplated in the design of the service provider’s controls.”

33. A practitioner may perform significant portions of the engagement before the end of the period covered by the report. If during that time the practitioner identifies compliance control objectives that have not been achieved, he or she should include a description of the condition in his or her report, even if management corrects the condition prior to the end of the period.

Agreed-Upon Procedures

34. A practitioner may also perform agreed-upon procedures related to compliance control objectives and related controls. Such engagements are performed in accordance with AT section 201, *Agreed-Upon Procedures Engagements*, (AICPA, *Professional Standards*, vol. 1). In these engagements, the parties to the engagement (specified parties) and the practitioner agree upon the procedures to be performed. The practitioner performs these procedures and reports his or her findings. The specified parties assume responsibility for the sufficiency of the procedures because they best understand their own needs. In an agreed-upon procedures engagement, the practitioner does not perform an examination or review of an assertion or subject matter or express an opinion or negative assurance about the assertion or subject matter. The practitioner’s report on agreed-upon procedures is in the form of procedures and findings. An illustrative agreed-upon procedures report is presented in Appendix E of this SOP. Use of an agreed-upon procedures report is restricted to the specified parties that agree upon the procedures and accept responsibility for the sufficiency of the procedures for their purposes.
35. In accordance with paragraph .10 of AT section 201, a practitioner should establish an understanding with the client regarding the services to be performed. Such an

understanding reduces the risk that the client may misinterpret the objectives and limitations of an agreed-upon procedures engagement and also reduces the risk that the client will misunderstand its responsibilities and the responsibilities of the practitioner. Paragraph .46 of AT section 101 provides further guidance on establishing an understanding with a client in an attestation engagement.

36. Paragraph .36 of AT section 201 enables a practitioner, after considering certain matters, to add a nonparticipant party as a specified party. If the practitioner agrees to add a specified party, he or she should obtain affirmative acknowledgement, normally in writing, from that party agreeing to the procedures performed and taking responsibility for the sufficiency of the procedures.

Effective Date

37. This SOP is effective upon issuance.

APPENDIX A

Appendix A-1—Illustrative Practitioner’s Examination Report on a Service Provider’s Assertion Regarding Specified Compliance Control Objectives and Related Controls

Appendix A-2—Illustrative Practitioner’s Examination Report on a Service Provider’s Assertion Regarding Specified Compliance Control Objectives and Related Controls When the Service Provider Uses a Subservice Provider and the Subservice Provider’s Control Objectives and Related Controls are Excluded From the Description and the Scope of the Practitioner’s Engagement

Appendix A-3—Illustrative Management Assertion Regarding a Service Provider’s Specified Compliance Control Objectives and Related Controls

Appendix A-4—Illustrative Service Provider’s Description of Specified Compliance Control Objectives and Related Controls

APPENDIX A-1

Illustrative Practitioner’s Examination Report on a Service Provider’s Assertion Regarding Specified Compliance Control Objectives and Related Controls

Note: The compliance control objectives and related controls referenced in the following illustrative practitioner’s report are examples only and should not be viewed as representative of or a complete description of the compliance control objectives or related controls a service provider might be expected to (1) establish and implement to meet any contractual responsibilities to funds or any other clients, (2) monitor for investment compliance, or (3) include in its description of specified compliance control objectives and related controls in an examination engagement covered by this Statement of Position (SOP). Additionally, there may be other areas of responsibility (beyond investment compliance) that a service provider might assume on behalf of funds or any other clients that might result in the inclusion and presentation of different or additional compliance control objectives and related controls for engagements covered by this SOP.

Report of Independent Accountants

To the Management of XYZ Service Provider:

[Introductory paragraph]

We have examined the assertion made by the management of XYZ Service Provider pertaining to controls over investment compliance that XYZ Service Provider performs for user organizations. Management’s assertion is included in the accompanying document titled, “Management’s Assertion Regarding XYZ Service Provider’s Specified Compliance Control Objectives and Related Controls” and states that:

- The controls described in the accompanying document titled, “XYZ Service Provider’s Description of Specified Compliance Control Objectives and Related Controls” (management’s description), were suitably designed as of December 31, 20X1 to provide reasonable assurance that the compliance control objectives established by management and described therein would be achieved, if those controls were complied with satisfactorily [*and user organizations applied the controls contemplated in the design of XYZ Service Provider’s controls*¹]; and
- The controls described in management’s description were operating with sufficient effectiveness to provide reasonable assurance that the specified compliance control objectives described therein were achieved during the period from January 1, 20X1 to December 31, 20X1.

Management of XYZ Service Provider is responsible for its assertion. Our responsibility is to express an opinion on management’s assertion based on our examination.

[Scope paragraph]

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of and evaluating the suitability of the design and operating effectiveness of the controls in achieving the specified compliance control objectives, and examining, on a test basis, evidence supporting management’s assertion and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

We were not engaged to perform and did not perform an examination of XYZ Service Provider’s or user organizations’ compliance or internal control over compliance with Federal Securities Laws, as that term is defined by Securities

1. Refer to user controls only in situations in which the application of controls by the user organizations is necessary to achieve specified control objectives. Otherwise omit this reference.

and Exchange Commission (SEC) Rule 38a-1 under the Investment Company Act of 1940 (“Federal Securities Laws”). We also were not engaged to perform and did not perform an examination of XYZ Service Provider’s compliance with its contractual obligations to its clients during the period from January 1, 20X1 to December 31, 20X1.

Our examination was limited to examining, for the purposes described above, management’s assertion about the specified compliance control objectives and related controls included in management’s description and did not consider any other compliance control objectives or controls that may be relevant to XYZ Service Provider’s or user organizations’ compliance or internal control over compliance with Federal Securities Laws. Further, the relative effectiveness and significance of specific controls at XYZ Service Provider, and their effect on user organizations’ compliance or internal control over compliance with Federal Securities Laws are dependent on their interaction with the controls and other factors present at individual user organizations. We have performed no procedures to evaluate the effectiveness of such controls or such other factors at individual user organizations.

The compliance control objectives and related controls set forth in management’s description have been provided to enable user organizations, when performing their annual compliance reviews as required by SEC Rule 38a-1 under the Investment Company Act of 1940, to consider such information along with information about their own compliance or internal control over compliance with Federal Securities Laws, and any other relevant information.

[Inherent limitations paragraph]

Management’s description is as of December 31, 20X1. Any projection of such information to the future is subject to the risk that, because of change, the description may no longer portray the system or controls in existence. The potential effectiveness of controls in achieving the specified compliance control objectives established by XYZ Service Provider is subject to inherent limitations and, accordingly, lack of compliance with controls and instances of errors or fraud may occur and not be detected. Furthermore,

the projection of any evaluations, based on our findings, to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with such controls may deteriorate, or changes made to the system or controls, or the failure to make needed changes to the system or controls, may alter the validity of such evaluations.

[Opinion paragraph]

In our opinion, management's assertion referred to above is fairly stated, in all material respects, based on the specified compliance control objectives set forth in management's description.

[Restricted use paragraph]

This report is intended solely for the information and use of chief compliance officers, management, boards of directors, and the independent auditors of XYZ Service Provider and of the entities that use the services of XYZ Service Provider, and is not intended to be and should not be used by anyone other than these specified parties.

[Signature of Independent Accountant]

March 31, 20X2

APPENDIX A-2

Illustrative Practitioner’s Examination Report on a Service Provider’s Assertion Regarding Specified Compliance Control Objectives and Related Controls When the Service Provider Uses a Subservice Provider and the Subservice Provider’s Control Objectives and Related Controls are Excluded From the Description and the Scope of the Practitioner’s Engagement

Note: The compliance control objectives and related controls referenced in the following illustrative practitioner’s report are examples only and should not be viewed as representative of or a complete description of the compliance control objectives or related controls a service provider might be expected to (1) establish and implement to meet any contractual responsibilities to funds or any other clients (2) monitor for investment compliance, or (3) include in its description of specified compliance control objectives and related controls in an examination engagement covered by this Statement of Position (SOP). Additionally, there may be other areas of responsibility (beyond investment compliance) that a service provider might assume on behalf of funds or any other clients that might result in the inclusion and presentation of different or additional compliance control objectives and related controls for engagements covered by this SOP.

Report of Independent Accountants

To the Management of XYZ Service Provider:

[Introductory paragraph]

We have examined the assertion made by the management of XYZ Service Provider pertaining to controls over investment compliance that XYZ Service Provider performs for user organizations. Management's assertion is included in the accompanying document titled, "Management's Assertion Regarding XYZ Service Provider's Specified Compliance Control Objectives and Related Controls" and states that:

- The controls described in the accompanying document, "XYZ Service Provider's Description of Specified Compliance Control Objectives and Related Controls" (management's description), were suitably designed as of December 31, 20X1 to provide reasonable assurance that the compliance control objectives established by management and described therein would be achieved, if those controls were complied with satisfactorily *[and user organizations applied the controls contemplated in the design of XYZ Service Provider's controls¹]*:
- The controls described in management's description were operating with sufficient effectiveness to provide reasonable assurance that the specified compliance control objectives described therein were achieved during the period from January 1, 20X1 to December 31, 20X1.

As stated in management's description, XYZ Service Provider uses a computer processing service provider for all of its computerized application processing. Management's description includes only those compliance control

1. Refer to user controls only in situations in which the application of controls by the user organizations is necessary to achieve specified control objectives. Otherwise omit this reference. Also, if the application of controls by the subservice provider is necessary to achieve the specified compliance control objectives, and the subscriber provider's controls are excluded from the description, the practitioner's report should be modified to include the phrase, "and the subservice provider applied the controls contemplated in the design of XYZ Service Provider's controls."

objectives and related controls of XYZ Service Provider, and does not include compliance control objectives and related controls of the computer processing service provider. Our examination did not extend to controls of the computer processing service provider.

Management of XYZ Service Provider is responsible for its assertion. Our responsibility is to express an opinion on management's assertion based on our examination.

[Scope paragraph]

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of and evaluating the suitability of the design and operating effectiveness of the controls in achieving the specified compliance control objectives; and examining, on a test basis, evidence supporting management's assertion and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

We were not engaged to perform and did not perform an examination of XYZ Service Provider's or user organizations' compliance or internal control over compliance with Federal Securities Laws, as that term is defined by Securities and Exchange Commission (SEC) Rule 38a-1 under the Investment Company Act of 1940 ("Federal Securities Laws"). We also were not engaged to perform and did not perform an examination of XYZ Service Provider's compliance with its contractual obligations to its clients during the period from January 1, 20X1 to December 31, 20X1.

Our examination was limited to examining, for the purposes described above, management's assertion about the specified compliance control objectives and related controls included in management's description and did not consider any other compliance control objectives or controls that may be relevant to XYZ Service Provider's or user organizations' compliance or internal control over compliance with Federal Securities Laws. Further, the relative effectiveness and significance of specific controls at XYZ Service Provider, and their effect on user organizations'

compliance or internal control over compliance with Federal Securities Laws are dependent on their interaction with the controls and other factors present at individual user organizations and at subservice providers. We have performed no procedures to evaluate the effectiveness of such controls or such other factors at individual user organizations or at subservice providers.

The compliance control objectives and related controls set forth in management's description have been provided to enable user organizations, when performing their annual compliance reviews as required by SEC Rule 38a-1 under the Investment Company Act of 1940, to consider such information along with information about their own compliance or internal control over compliance with Federal Securities Laws, and any other relevant information.

[Inherent limitations paragraph]

Management's description is as of December 31, 20X1. Any projection of such information to the future is subject to the risk that, because of change, the description may no longer portray the system or controls in existence. The potential effectiveness of controls in achieving the specified compliance control objectives established by XYZ Service Provider is subject to inherent limitations and, accordingly, lack of compliance with controls and instances of errors or fraud may occur and not be detected. Furthermore, the projection of any evaluations, based on our findings, to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with such controls may deteriorate, or changes made to the system or controls, or the failure to make needed changes to the system or controls, may alter the validity of such evaluations.

[Opinion paragraph]

In our opinion, management's assertion referred to above is fairly stated, in all material respects, based on the specified compliance control objectives set forth in management's description.

[Restricted use paragraph]

This report is intended solely for the information and use of chief compliance officers, management, boards of directors, and the independent auditors of XYZ Service Provider and of the entities that use the services of XYZ Service Provider, and is not intended to be and should not be used by anyone other than these specified parties.

[Signature of Independent Accountant]

March 31, 20X2

APPENDIX A-3

Illustrative Management Assertion Regarding a Service Provider's Specified Compliance Control Objectives and Related Controls

Management's Assertion Regarding XYZ Service Provider's Specified Compliance Control Objectives and Related Controls

XYZ Service Provider provides certain investment compliance services to funds (user organizations). XYZ Service Provider's description of specified compliance control objectives and related controls is presented in the accompanying document, "XYZ Service Provider's Description of Specified Compliance Control Objectives and Related Controls" (management's description). We, as members of management of XYZ Service Provider, are responsible for the description as well as for the suitability of the design and operating effectiveness of those controls.

Management's description is provided to enable user organizations, when performing their annual compliance review as required by Securities and Exchange Commission (SEC) Rule 38a-1 under the Investment Company Act of 1940, to consider such information, along with information about their own compliance and internal control over compliance with Federal Securities Laws, as that term is defined in Rule 38a-1, and any other relevant information. We have evaluated the suitability of the design and operating effectiveness of these controls in achieving the compliance control objectives included in management's description during the period from January 1, 20X1 through December 31, 20X1. The criteria against which the controls were evaluated are the specified compliance control objectives included in management's description. Based on our evaluation, we assert that:

- The controls included in management’s description were suitably designed as of December 31, 20X1 to provide reasonable assurance that the compliance control objectives described therein would be achieved, if those controls were complied with satisfactorily [*and user organizations applied the controls contemplated in the design of XYZ Service Provider’s controls*”¹].
- The controls set forth in management’s description were operating with sufficient effectiveness to provide reasonable assurance that the specified compliance control objectives, included in management’s description, were achieved during the period from January 1, 20X1 to December 31, 20X1.

By: _____
[*Signature, name, and title of appropriate official*]

By: _____
[*Signature, name, and title of appropriate official*]

1. Refer to user controls only in situations in which the application of controls by the user organizations is necessary to achieve the specified control objectives. Otherwise omit the reference. Also, if the application of controls by a subservice provider is necessary to achieve the specified compliance control objectives, and the subservice provider’s controls are excluded from the description, the practitioner’s report should be modified to include the phrase, “and the subservice provider applied the controls contemplated in the design of XYZ Service Provider’s controls.”

APPENDIX A-4

Illustrative Service Provider's Description of Specified Compliance Control Objectives and Related Controls

XYZ Service Provider's Description of Specified Compliance Control Objectives and Related Controls

Note: The following is an illustration of a description of investment compliance control objectives and related controls for an investment adviser (XYZ Service Provider) performing investment compliance-related services for funds.¹ This illustration is presented solely to provide an example of control objectives and related controls pertaining to investment-compliance related services and should not be viewed as representative of or a complete set of compliance control objectives or related controls that a service provider might be expected to (1) perform in these circumstances or similar circumstances, (2) establish and implement to meet any contractual responsibilities to funds or any other clients, or (3) include in its written description of specified compliance control objectives and related controls in an examination engagement covered by this Statement of Position (SOP). Additionally, there may be other areas of responsibility (beyond investment compliance) that a service provider might assume on behalf of funds or any other clients that might result in the inclusion and presentation of different or additional compliance control objectives and related controls for engagements covered by this SOP.

1. In this illustration, the investment adviser performs investment compliance-related services in addition to investment advisory services for funds. In other situations, investment compliance-related services may be performed, in whole or in part, by one or more other service providers or subservice providers.

Monitoring Compliance with Fund Investment Guidelines and Restrictions

[XYZ Service Provider uses a computer processing service provider for all of its computerized application processing.² The accompanying description includes only those compliance control objectives and related controls of XYZ Service Provider, and does not include compliance control objectives and related controls of the computer processing service provider.]

Control Objective 1: Controls provide reasonable assurance that securities trades for the fund and the fund's securities holdings comply with investment guidelines and restrictions included in the fund's investment advisory agreement, prospectus, and statement of additional information.

Controls:

1. Before any securities trading commences for a fund (a) XYZ Service Provider's trading desk representative enters information (coding) in the fund's securities trading order entry and compliance (STOEC) module to reflect all investment guidelines and restrictions included in the documents identified in Control Objective 1, and (b) a supervisor in XYZ Service Provider's fund services department compares, for completeness and accuracy, the information (coding) entered in the fund's STOEC module to the corresponding information included in the source documents referred to in Control Objective 1. Any discrepancies that appear to be the result of data entry errors (for example, entering the number 50% when the prospectus states 5%) are corrected upon identification by XYZ Service Provider. Any other

2. If the service provider uses a subservice provider, management's description should include a brief statement of the functions and nature of the services performed by the subservice provider. In addition, the description should indicate whether the subservice provider's compliance control objectives and related controls are included in or excluded from the description. See paragraphs 16–17 of the Statement of Position for additional information about the information to be included in this disclosure.

discrepancies related to differences in interpretation or uncertainty about the meaning of information in the source documents, are communicated to the fund's treasurer or chief compliance officer for research, clarification, and resolution. Any subsequent changes to the original information (coding) entered by XYZ Service Provider must be approved by the fund's treasurer or chief compliance officer.

2. On a daily basis, a report of all deletions, modifications, and additions made to investment guidelines and restrictions in the fund's STOEC module is reviewed by a supervisor in XYZ Service Provider's fund services department. The supervisor compares each change made to a written authorization to effect the change submitted by the fund's treasurer or chief compliance officer.
3. Annually, a supervisor in XYZ Service Provider's fund services department compares, for completeness and accuracy, the current information (coding) in each fund's STOEC module to the corresponding source documents referred to in the Control Objective.
4. For all securities trades for which the functionality of a fund's STOEC module identifies an apparent or possible noncompliant securities trade order, the order is 'pending' until the fund's treasurer or chief compliance officer reviews the circumstances of the requested trade and determines whether it is permissible. If permissible, the 'pending' trade is released for processing upon written approval by either the fund's treasurer or chief compliance officer. If not permissible, the trade is cancelled. On the basis prescribed in the fund's compliance policies and procedures (daily, weekly, monthly, or quarterly), members of the compliance staff of XYZ Service Provider review reports generated by the STOEC module to ascertain that no violations of the fund's investment guidelines and restrictions have occurred. Any violations are researched, and XYZ Service Provider's compliance staff ascertains that corrective actions were approved by the fund's treasurer or chief compliance officer, and effected.

Control Objective 2: Controls provide reasonable assurance that the dollar-weighted average portfolio maturities (WAPM) of money market funds do not exceed 90 days, as required by Securities and Exchange Commission (SEC) Rule 2a-7.

Controls:

1. For each new security purchased, a trade department analyst at XYZ Service Provider compares the terms entered in the trade system to the corresponding information in the documentation of the security purchase, including the date used for the WAPM calculation (for example, interest-rate reset date or maturity date).
2. On a quarterly basis, XYZ Service Provider's compliance staff verifies that the computation logic in its securities accounting system (SAS), which affects the calculation of the funds' WAPM, is consistent with applicable provisions of SEC Rule 2a-7 and regulatory guidance issued.
3. On a daily basis, using reports and information produced by the SAS, XYZ Service Provider's compliance staff determines whether any of the funds' WAPM exceeds 75 days. If so, the compliance staff alerts the portfolio manager so that this information can be taken into account by the portfolio manager when making prospective investment management decisions for the fund. If a fund's WAPM exceeds 80 days, the compliance staff also alerts the fund's treasurer.
4. On a daily basis, using reports and information produced by the SAS, XYZ Service Provider's compliance staff identifies changes of 3 days or more in any fund's WAPM from the fund's prior day WAPM, and researches the fund's investing activities sufficiently to identify the reason for the change and whether there is a reasonable basis for the change. The results of the research are documented and provided to a compliance department manager for his or her written review and approval.

APPENDIX B

Illustrative Practitioner’s Examination Report Containing a Qualified Opinion on the Suitability of the Design and Operating Effectiveness of a Service Provider’s Controls in Achieving Specified Compliance Control Objectives

Paragraph .66 of AT section 101 states, in part, “If conditions exist that individually or in combination result in one or more deficiencies material misstatements or deviations from the criteria, the practitioner should modify the report and, to most effectively communicate with a reader of the report, should ordinarily express his or her conclusion directly on the subject matter, not on the assertion.” The following illustrative practitioner’s report relates to an examination engagement in which the practitioner identified a control deficiency in the operating effectiveness of the service provider’s controls; accordingly, the practitioner reports on the subject matter, rather than on the assertion. Also, in an explanatory paragraph preceding the opinion paragraph, the practitioner describes the matters giving rise to the qualification. In this engagement, the practitioner has concluded that the deficiency in controls is not sufficiently pervasive to warrant an adverse opinion.

Report of Independent Accountants

To the Management of ABC Service Provider:

[Introductory paragraph]

We have examined whether the controls described in the accompanying document, “ABC Service Provider’s Description of Specified Compliance Control Objectives and Related Controls” (management’s description), were:

- Suitably designed, as of December 31, 20X1, to provide reasonable assurance that the specified compliance control objectives established by management of ABC Service Provider and described therein would be achieved, if those controls were complied with satisfactorily; [*and user organizations applied the controls contemplated in the design of ABC Service Provider’s controls*¹]; and
- Operating with sufficient effectiveness to provide reasonable assurance that the specified compliance control objectives described therein were achieved during the period from January 1, 20X1 to December 31, 20X1.

Management of ABC Service Provider is responsible for the suitability of the design and operating effectiveness of these controls in achieving the specified compliance control objectives. Our responsibility is to express an opinion based on our examination.

[Scope paragraph]

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining on a test basis, evidence supporting the suitability of the design and operating effectiveness of the controls in achieving the specified compliance control objectives and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

We were not engaged to perform and did not perform an examination of ABC Service Provider’s or user organizations’ compliance or internal control over compliance with Federal Securities Laws, as that term is defined by Securities and Exchange Commission (SEC) Rule 38a-1, under the Investment Company Act of 1940 (“Federal Securities Laws”). We also were not engaged to perform and did not perform an examination of ABC Service Provider’s

1. Refer to user controls only in situations in which the application of controls by the user organizations is necessary to achieve the specified control objectives. Otherwise omit this reference.

compliance with its contractual obligations to its clients during the period from January 1, 20X1 to December 31, 20X1.

Our examination was limited to examining, for the purposes described above, the suitability of the design and operating effectiveness of the controls in achieving the specified compliance control objectives included in management's description and did not consider any other compliance control objectives or controls that may be relevant to ABC Service Provider's or user organizations' compliance or internal control over compliance with Federal Securities Laws. Further, the relative effectiveness and significance of specific controls at ABC Service Provider, and their effect on user organizations' compliance or internal control over compliance with Federal Securities Laws are dependent on their interaction with the controls and other factors present at individual user organizations. We have performed no procedures to evaluate the effectiveness of such controls or such other factors at individual user organizations.

The compliance control objectives and related controls set forth in management's description have been provided to enable user organizations, when performing their annual compliance reviews as required by SEC Rule 38a-1 under the Investment Company Act of 1940, to consider such information along with information about their own compliance or internal control over compliance with Federal Securities Laws, and any other relevant information.

[Inherent limitations paragraph]

Management's description is as of December 31, 20X1. Any projection of such information to the future is subject to the risk that, because of change, the description may no longer portray the system or controls in existence. The potential effectiveness of controls in achieving the specified compliance control objectives established by ABC Service Provider is subject to inherent limitations and, accordingly, lack of compliance with controls and instances of errors or fraud may occur and not be detected. Furthermore, the projection of any evaluations, based on our findings, to future periods is subject to the risk that controls

may become inadequate because of changes in conditions, or that the degree of compliance with such controls may deteriorate, or changes made to the system or controls, or the failure to make needed changes to the system or controls, may alter the validity of such evaluations

[Explanatory paragraph]

Management of ABC Service Provider has included in its description a control requiring that the manager of the advertising and sales department review and approve performance data used in ABC Service Provider’s advertising and sales literature prior to its release to the public. Our tests of operating effectiveness noted that the manager of the advertising and sales department did not review and approve the aforementioned performance data prior to its release to the public. The manager’s failure to perform this control is a deficiency in the operating effectiveness of the service provider’s controls that resulted in the nonachievement of the compliance control objective included in management’s description: “Performance data used in advertising and sales literature are accurate and approved before release to the public.”

[Opinion paragraph]

In our opinion ABC Service Provider’s controls were suitably designed at December 31, 20X1 to provide reasonable assurance that the specified compliance control objectives, as described in management’s description, would be achieved, if those controls were complied with satisfactorily [*and user organizations applied the controls contemplated in the design of ABC Service Provider’s controls*²]. Also, in our opinion, except for the deficiency described in the preceding paragraph, ABC Service Provider’s controls were operating with sufficient effectiveness to provide reasonable assurance that the specified compliance control

2. Refer to user controls only in situations in which the application of controls by the user organizations is necessary to achieve the specified control objectives. Otherwise omit this reference.

objectives were achieved during the period from January 1, 20X1 through December 31, 20X1, based on the specified compliance control objectives set forth in management's description.³

[Restricted use paragraph]

This report is intended solely for the information and use of chief compliance officers, management, boards of directors, and the independent auditors of ABC Service Provider and of the entities that use the services of ABC Service Provider, and is not intended to be and should not be used by anyone other than these specified parties.

[Signature of Independent Accountant]

March 31, 20X2

3. In instances in which a control is not suitably designed, the phrase "except for the deficiency described in the preceding paragraph" would be inserted in the first sentence of the opinion paragraph, which relates to the suitability of the design of controls.

APPENDIX C

Additional Illustrative Compliance Control Objectives

Note: The following are additional illustrative compliance control objectives pertaining to various services service providers might provide. These illustrative compliance control objectives are only examples and should not be viewed as representative of or a complete set or description of compliance control objectives that a service provider might be expected to (1) establish and implement to meet any contractual responsibilities to funds or any other clients, (2) monitor for achievement, or (3) include in its description of specified compliance control objectives and related controls in an attestation engagement covered by this Statement of Position (SOP). Additionally, there may be other areas of responsibility (beyond those listed below) that a service provider might assume on behalf of funds or any other clients that might result in the inclusion and presentation of different or additional compliance control objectives and related controls for engagements covered by this SOP.

Fund Advertising and Sales Literature

Controls provide reasonable assurance that:

1. Advertising and sales literature is reviewed for compliance with the service provider's established policies and is timely submitted to the National Association of Securities Dealers (NASD) for approval
2. Comments from the NASD on advertising and sales literature are reviewed and timely reflected in advertising and sales literature as required
3. Performance data used in advertising and sales literature are accurate and approved before release

4. Expiring advertisement and sales literature is identified and updated or disposed of before the expiration date
- 5 Regulatory changes are monitored and reflected in current and future advertising and sales literature

Valuation of Client Assets or Investments

Controls provide reasonable assurance that:

1. Securities price information is received from authorized sources in accordance with client instructions and is entered completely and accurately into the portfolio accounting system
2. Foreign exchange rates are received from authorized sources in accordance with client instructions and are entered completely and accurately into the portfolio accounting system
3. Securities that do not have readily determinable market values (for example, those valued at fair value in good faith), including international equity securities whose values are determined by adjusting the closing price on the foreign securities exchange, are valued according to consistently applied policies and procedures established by the service provider's client
4. For registered money-market-fund securities valued at amortized cost, valuation is monitored for compliance with the "mark-to-market" provision of Securities and Exchange Commission (SEC) Rule 2a-7 and deviations in excess of established thresholds are reported in accordance with client instructions

Privacy

Controls provide reasonable assurance that:

1. The use of and access to nonpublic client information is restricted to authorized personnel

2. Customers of the fund are provided with a notice of privacy policies at the time they become a customer and in the event of a change to the privacy policy
3. Access to and use of material nonpublic information is restricted to authorized personnel
4. At least annually, employees are provided with written policies related to material nonpublic information and instruction about those policies
5. Customer information is disclosed only to authorized third parties

Transfer Agency

Controls provide reasonable assurance that:

1. As required by policies and procedures, the identity of any person seeking to open an account with the fund is verified by examining specified documents and other information and maintaining records of the information used to verify the person's identity
2. Cash equivalents under \$10,000 are monitored and tracked for a rolling 12-month period; Internal Revenue Service (IRS) Form 8300 is filed, and the shareholder is notified as required by the IRS
3. Certificate redemption requests are processed in a timely manner and archived in a secure manner for subsequent inquiry
4. Missing, lost, stolen, or counterfeit certificate notifications are processed in a timely manner, and Form X-17F-1A is filed with the Securities Information Center within the required number of business days
5. Transfer agent employees are fingerprinted and the related records are maintained for the required time period
6. Shareholder financial-related transactions are priced using the appropriate net asset value per share

7. Dividends are processed completely and accurately; dividend distributions are reconciled between the fund's general ledger and the shareholder accounting system; and any exceptions are researched and resolved by the next reporting period
8. Signature guarantees pertaining to shareholder transactions are reviewed upon presentment; rejected signature guarantees are communicated to the compliance department for tracking

Investment Compliance

Controls provide reasonable assurance that on a weekly basis:

1. Securities holdings are monitored for compliance with prospectus guidelines
2. Securities holdings are monitored to ensure that the portfolio meets a 15 percent liquidity standard
3. Securities of money market funds are monitored for compliance with the portfolio maturity and credit quality provisions of SEC Rules 2a-7c.2 and 2a-7c.3, respectively

APPENDIX D

Matters Identified in Securities and Exchange Commission Release Nos. IC-26299 and IA-2204 Adopting Rules 38a-1 and 206(4)-7 Pertaining to Compliance Policies and Procedures of Funds and Investment Advisers

As described in paragraph 15 of this Statement of Position (SOP), when management of the service provider establishes the compliance control objectives and related controls that are the subject of the engagement, it should consider, among other things, the compliance matters identified in Securities and Exchange Commission (SEC) Release Nos. IC-26299 and IA-2204 adopting Rule 38a-1 under the Investment Company Act of 1940 and Rule 206(4)-7 under the Investment Advisers Act of 1940, respectively. The SEC Release indicates that the SEC expects the policies and procedures of funds and their advisers to, at a minimum, address the following specified areas if those areas are relevant to the services the entity provides:

- Portfolio management processes, including allocation of investment opportunities among clients, and consistency of portfolios with clients' investment objectives, disclosures by the adviser, and applicable regulatory restrictions
- Trading practices, including procedures by which the adviser satisfies its best execution obligation, uses client brokerage to obtain research and other services (soft dollar arrangements), and allocates aggregated trades among clients
- Proprietary trading of the adviser and personal trading activities of supervised persons

- Accuracy of disclosures made to investors, clients, and regulators, including account statements and advertisements
- Safeguarding of client assets from conversion or inappropriate use by advisory personnel
- Accurate creation of required records and their maintenance in a manner that secures them from unauthorized alteration or use and protects them from untimely destruction
- Marketing advisory services, including the use of solicitors
- Processes to value client holdings and assess fees based on those valuations
- Safeguards for the privacy protection of client records and information
- Business continuity plans

Additional matters that the SEC expects funds (or their service providers) to address are listed in paragraph 2. This SOP does not require that a service provider's compliance control objectives address all of the relevant areas identified in the SEC Release; however, the areas listed in this paragraph and in paragraph 2 comprise matters that, if relevant in the circumstances, should be considered by management of the service provider in determining compliance control objectives to be included in the scope of the attestation engagement.

The following is a summary of the additional areas, identified in the SEC Release, for which a fund or its service providers would be expected to have policies and procedures.

Pricing of portfolio securities and fund shares. The Investment Company Act of 1940 requires funds to sell and redeem their shares at prices based on their current net asset value, to pay redemption proceeds promptly, and, when market quotations are readily available, to calculate net asset values using the market value of the portfolio securities. If a market quotation is not readily available, the fund

should use the fair value of the security, as determined in good faith by the fund's board. Further, Rule 38a-1 requires funds to adopt policies and procedures requiring the fund to monitor for circumstances that may necessitate the use of fair value prices, establish criteria for determining when market quotations are no longer reliable for a particular portfolio security, provide a methodology or methodologies by which the fund determines the current fair value of the portfolio security, and regularly review the appropriateness and accuracy of the method used in valuing securities and make any necessary adjustments.

Processing of fund shares. Pursuant to SEC rules, an investor submitting a purchase order or redemption request must receive the price next calculated after receipt of the purchase order or redemption request. A fund must have procedures in place that segregate investor orders received before the fund prices its shares (which will receive that day's price) from those that were received after the fund prices its shares (which will receive the following day's price). Rule 38a-1 requires funds to approve and periodically review the policies and procedures of transfer agents. Funds should also take affirmative steps to protect themselves and their shareholders against late trading by obtaining assurances that those policies and procedures are effectively administered.

Identification of affiliated persons. To prevent self-dealing and overreaching by persons in a position to take advantage of the fund, the Investment Company Act of 1940 prohibits funds from entering into certain transactions with affiliated persons. Funds should have policies and procedures in place to identify these persons and to prevent unlawful transactions with them.

Protection of nonpublic information. The federal securities laws prohibit insider trading, and section 204A of the Investment Advisers Act of 1940 requires investment advisers (including advisers to funds) to establish, maintain, and enforce policies and procedures designed to prevent the adviser or any of its associated persons from misusing material, nonpublic information. Fund advisers should incorporate their section 204A policies into the policies

required by Rule 38a-1. A fund's compliance policies and procedures should also address other potential misuses of nonpublic information, including the disclosure to third parties of material information about the fund's portfolio, its trading strategies or pending transactions, and the purchase or sale of fund shares by advisory personnel based on material, nonpublic information about the fund's portfolio.

Compliance with fund governance requirements. Fund boards are responsible for, among other things, approving the fund's advisory contracts, underwriting agreements, and distribution plans. The Investment Company Act of 1940 requires that fund boards be elected by fund shareholders and that a certain percentage of the board be "independent directors." To rely on many of the SEC's exemptive rules, independent directors must constitute a majority of the board, must be selected and nominated by other independent directors, and, if they hire legal counsel, must hire independent legal counsel. A fund's policies and procedures should be designed to guard against, among other things, an improperly constituted board, the failure of the board to properly consider matters entrusted to it, and the failure of the board to request and consider information required by the Investment Company Act of 1940 from the fund adviser and other service providers.

Market timing. Under Rule 38a-1, a fund must have procedures reasonably designed to ensure compliance with its disclosed policies regarding market timing. Market timing is the excessive short-term trading of mutual fund shares that may be harmful to the fund. These procedures should provide for monitoring of shareholder trades or flows of money in and out of the funds in order to detect market timing activity, and for consistent enforcement of the fund's policies regarding market timing. If the fund permits any waivers of those policies, the procedures should be reasonably designed to prevent waivers that would harm the fund or its shareholders or subordinate the interests of the fund or its shareholders to those of the adviser or any other affiliated person or associated person of the adviser. Fund boards are strongly urged by the SEC to require fund advisers, or other persons authorized to waive market timing

policies, to report to the board at least quarterly all waivers granted so that the board can determine whether the waivers were proper. Many funds' prospectuses already disclose market timing policies, and failure to adhere to those disclosed policies violates the antifraud provisions of the federal securities laws. Moreover, a fund adviser who waives or disregards those policies for the benefit of itself or a third party has breached its fiduciary responsibilities to the fund.

APPENDIX E

Illustrative Practitioner's Agreed-Upon Procedures Report

The following is an illustrative agreed-upon procedures report for procedures performed at a service provider.

Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Management of XYZ Service Provider:

We have performed the procedures enumerated in Attachment X which were agreed to by XYZ Service Provider, solely to assist you in evaluating XYZ Service Provider's internal control over compliance during the year ended December 31, 20X1. Management of XYZ Service Provider is responsible for maintaining effective internal control over compliance with federal securities laws, regulations, and related SEC rules. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of XYZ Service Provider. Consequently, we make no representation regarding the sufficiency of the procedures described in Attachment X either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and the findings are included in Attachment X.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on internal control over compliance by XYZ Service Provider for the year ended December 31, 20X1. 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.

This report is intended solely for the information and use of XYZ Service Provider and is not intended to be and should not be used by anyone other than this specified party.¹

[Signature of Independent Accountant]

March 31, 20X2

1. Paragraph .36 of AT section 201, *Agreed-Upon Procedures Engagements* (AICPA, *Professional Standards*, vol. 1), and paragraph 36 of this SOP address adding specified parties as users of an agreed-upon procedures report.

Chief Compliance Officers Task Force

Brian Gallagher, *Chair* Brent D. Oswald
Joseph Grainger Patricia Piteo
Richard N. Murphy

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