
STANDING ADVISORY GROUP MEETING

BROKER-DEALER AUDIT CONSIDERATIONS

JULY 15, 2010

Introduction

In December 2008, the SEC discontinued the exemption from Public Company Accounting Oversight Board ("PCAOB" or the "Board") registration previously applicable to accounting firms that audit the approximately 5,000 broker-dealers registered with the U.S. Securities and Exchange Commission ("SEC"). As a result, as of May 2010, more than 500 accounting firms with broker-dealer audit clients have registered with the Board. The Sarbanes-Oxley Act, however, does not subject the audits for broker-dealers to the PCAOB's standard-setting, inspections, investigatory, or disciplinary authority.

Congress is currently considering proposed legislation that would give the Board full oversight authority for broker-dealer audits. If this legislation is enacted, the Board would expand its rules and standards to cover audits of broker-dealers. Therefore, the Board would develop or amend the auditing and related professional practice standards as necessary.

Given that the Board may soon gain this authority, the staff is seeking the SAG's views as to certain aspects of broker-dealer audits. This briefing paper provides background information on current broker-dealer audit requirements and related discussion questions.

Background

A broker-dealer is an individual or a firm that is engaged in the business of trading securities for its own account or on behalf of its customers. Broker-dealers must be registered with the SEC and are subject to a number of rules and regulatory reporting requirements. Two significant SEC rules are Rule 15c3-3, *Customer Protection – Reserves and Custody of Securities* ("Rule 15c3-3") and Rule 15c3-1, *Net*

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| <p>This paper was developed by the staff of the Office of the Chief Auditor as of July 2, 2010 to foster discussion among the members of the Standing Advisory Group. It is not a statement of the Board; nor does it necessarily reflect the views of the Board or staff.</p> |
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Capital Requirements for Brokers or Dealers ("Rule 15c3-1"). The applicability of rules and regulatory reporting requirements vary based on the business activities of the broker-dealer. An "introducing broker-dealer" accepts customers' orders but the orders are processed or "cleared" through another broker, known as a clearing broker. A clearing broker, among other things, receives and executes customers' instructions and settles the money related to the trades. Because introducing broker-dealers do not hold customer assets, they generally do not have to comply with Rule 15c3-3, which includes requirements regarding establishing a customer reserve as well as requirements regarding possession and control of customer securities.^{1/} A carrying broker is a broker-dealer that holds customer accounts for introducing broker-dealers and also is typically a clearing firm for introducing firms. The carrying broker is subject to Rule 15c3-3.^{2/}

Of the approximately 5,000 registered broker-dealers, approximately 500 hold customer accounts or act as clearing brokers. All broker-dealers are required to be members of the Financial Industry Regulatory Authority, which has responsibility for oversight of the over-the-counter securities market.^{3/} With limited exceptions, broker-dealers are required to be members of the Securities Investors Protection Corporation ("SIPC"), which is designed to protect, up to a specific maximum amount, customers' cash and securities if a broker-dealer fails and is liquidated.

SEC Rule 17a-5, *Reports to be Made by Certain Brokers and Dealers* ("Rule 17a-5"),^{4/} requires that annual reports made by broker-dealers include audited financial statements. Rule 17a-5(g)(1) requires the audit to include a review of the accounting system, the internal accounting control and procedures for safeguarding securities, and for the audit to include all procedures necessary to enable the auditor to express an opinion on the following:

^{1/} See Rule 15c3-3(k)(2)(ii), which indicates that provisions of Rule 15c3-3 are not applicable to an introducing broker or dealer.

^{2/} All brokers or dealers who do not meet the exemption requirements of Rule 15c3-3(k) are required to comply with Rule 15c3-3. Carrying brokers generally do not meet the exemption requirements of Rule 15c3-3(k).

^{3/} See Rule 15b1-1(b) requiring registration of brokers or dealers who trade in over-the-counter securities to register with the Financial Industry Regulatory Authority.

^{4/} See Appendix A for excerpt of Rule 17a-5, *Reports to be Made by Certain Brokers and Dealers*.

- The statements of financial condition, results of operations, and cash flows;
- The computation of net capital under Rule 15c3-1
- The computation for determination of reserve requirements under Exhibit A to Rule 15c3-3; and
- Information relating to the possession or control requirements under Rule 15c3-3.

Rule 17a-5(g)(1) further requires that "[t]he scope of the audit and review of the accounting system, the internal control and procedures for safeguarding securities shall be sufficient to provide reasonable assurance that any material inadequacies existing at the date of the examination" in the areas specified by the rule are disclosed. Rule 17a-5(h)(1) states that "[t]he extent and timing of audit procedures are matters for the independent public accountant to determine on the basis of his [or her] review and evaluation of existing internal controls and other audit procedures performed in accordance with generally accepted auditing standards and the audit objectives" described above.

Customer securities held by broker-dealers are neither measured in a broker-dealer's financial statements nor are they disclosed in the footnotes to the financial statements. Investments reflected in the financial statements of a broker-dealer represent only the broker-dealer's proprietary portfolio. A broker-dealer maintains a separate set of books, referred to as the stock record, in which it records both its customers' and its own securities transactions. As only the broker-dealer's proprietary portfolio is reflected in its audited financial statements and because there are currently no specific audit requirements in the American Institute of Certified Public Accountant's ("AICPA") Auditing Standards Board's ("ASB") auditing standards pertaining to customer securities, the extent to which audit procedures are applied to the stock record varies.

Broker-dealers must file their audited financial statements^{5/} with the SEC within 60 days after their fiscal year end, along with the auditor's report on internal control required by Rule 17a-5^{6/} and a supplemental report by the auditor, which includes

^{5/} See Appendix B for an example of the standard auditor's report.

^{6/} See Appendix C for an example of the auditor's report on internal control required by Rule 17a-5(g)(1).

procedures related to the broker-dealer's SIPC annual general assessment reconciliation form ("SIPC report").^{7/} The audit opinion filed with the financial statements covers the required supplementary schedules regarding calculations determined under Rules 15c3-1 and 15c3-3.^{8/}

The auditor's report on internal control required by Rule 17a-5 is not addressed specifically in the standards of the ASB, nor is there a specific PCAOB standard which would address this report. Instead, an example of the form of report currently filed with the SEC is included in the AICPA's *Audit and Accounting Guide on Brokers and Dealers in Securities* ("AICPA AAG"). The AICPA AAG states that the wording in this example report is based on guidance in Statement on Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit* ("SAS No. 115"). SAS No. 115 provides guidance for communicating matters related to internal controls when an auditor is not engaged to examine the design and operating effectiveness of an entity's internal control over financial reporting that is integrated with an audit of the entity's financial statements but rather when during an audit of financial statements, an auditor becomes aware of deficiencies in internal control while obtaining an understanding of the entity and its environment or performing other audit procedures.^{9/} As such, SAS No. 115 does not include requirements on how to test the design or operating effectiveness of internal controls.

The PCAOB may need to develop specific auditing or attestation standards pertaining to customer assets as well as for the report required by Rule 17a-5. The PCAOB also may need to work with the SEC to determine if the existing report on controls surrounding customer assets is sufficiently responsive to SEC requirements which require reasonable assurance.

Based on the staff's initial observations, the PCAOB will need to issue or amend standards to provide specific procedures regarding the regulatory reports required under SEC Rule 17a-5, such as, among other things, the reports on internal accounting controls and on the procedures for safeguarding customer securities, the computation of net capital, and SIPC fees.

^{7/} See Appendix D for an example of the supplemental report on applying agreed-upon procedures related to an entity's SIPC assessment reconciliation.

^{8/} See Rule 17a-5(d)(5) for 60 day filing requirement and Rule 17a-5(e)(4) for SIPC filing requirements.

^{9/} Statement on Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit*, was adopted by the ASB after April 16, 2003; therefore, it is not part of the Board's auditing standards.

Discussion Questions –

1. Because of existing SEC requirements, would the PCAOB need to establish specific auditing, attestation or professional practice standards for broker-dealer audits, and if so, what would they be?
2. What other matters would the PCAOB need to consider in developing standards for the audits of broker-dealers?

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The PCAOB is a private-sector, non-profit corporation, created by the Sarbanes-Oxley Act of 2002, to oversee the auditors of public companies in order to protect the interests of investors and further the public interest in the preparation of informative, fair, and independent audit reports.

Appendix A

Excerpt of SEC Rule 17a-5, *Reports to Be Made by Certain Brokers and Dealers*

g. Audit objectives.

1. The audit shall be made in accordance with generally accepted auditing standards and shall include a review of the accounting system, the internal accounting control and procedures for safeguarding securities including appropriate tests thereof for the period since the prior examination date. The audit shall include all procedures necessary under the circumstances to enable the independent public accountant to express an opinion on the statement of financial condition, results of operations, cash flows, and the Computation of Net Capital under Rule 15c3-1, the Computation for Determination of Reserve Requirements for Brokers or Dealers under Exhibit A of Rule 15c3-3, and Information Relating to the Possession or Control Requirements under Rule 15c3-3. The scope of the audit and review of the accounting system, the internal control and procedures for safeguarding securities shall be sufficient to provide reasonable assurance that any material inadequacies existing at the date of the examination in
 - a. the accounting system;
 - b. the internal accounting controls;
 - c. procedures for safeguarding securities; and
 - d. the practices and procedures whose review is specified in (i), (ii), (iii) and (iv) of this paragraph would be disclosed. Additionally, as specific objectives, the audit shall include reviews of the practices and procedures followed by the client:
 - i. in making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11) and the reserve required by Rule 15c3-3(e);
 - ii. in making the quarterly securities examinations, counts, verifications and comparisons and the recordation of differences required by Rule 17a-13;

- iii. in complying with the requirement for prompt payment for securities of Section 4(c) of Regulation T of the Board of Governors of the Federal Reserve System; and
 - iv. in obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by Rule 15c3-3. Such review shall include a determination as to the adequacy of the procedures described in the records required to be maintained pursuant to Rule 15c3-3(d)(4).
2. If the broker or dealer is exempt from Rule 15c3-3, the independent public accountant shall ascertain that the conditions of the exemption were being complied with as of the examination date and that no facts came to his attention to indicate that the exemption had not been complied with during the period since his last examination.
3. A material inadequacy in the accounting system, internal accounting controls, procedures for safeguarding securities, and practices and procedures referred to in paragraph (g)(1) of this section which is expected to be reported under these audit objectives includes any condition which has contributed substantially to or, if appropriate corrective action is not taken, could reasonably be expected to
 - a. inhibit a broker or dealer from promptly completing securities transactions or promptly discharging his responsibilities to customers, other broker-dealers or creditors;
 - b. result in material financial loss;
 - c. result in material misstatements of the broker's or dealer's financial statements; or
 - d. result in violations of the Commission's recordkeeping or financial responsibility rules to an extent that could reasonably be expected to result in the conditions described in paragraphs (g)(3)(i), (ii), or (iii) of this section.

h. Extent and timing of audit procedures.

1. The extent and timing of audit procedures are matters for the independent public accountant to determine on the basis of his review and evaluation of existing internal controls and other audit procedures performed in accordance with generally accepted auditing standards and the audit objectives set forth in paragraph (g) of this section. In determining the extent of testing, consideration shall be given to the materiality of an area and the possible effect on the financial statements and schedules of a material misstatement in a related account. The performance of auditing procedures involves the proper synchronization of their application and thus comprehends the need to consider simultaneous performance of procedures in certain areas such as, for example, securities counts, transfer verification and customer and broker confirmation in connection with verification of securities positions.
2. If, during the course of the audit or interim work, the independent public accountant determines that any material inadequacies exist in the accounting system, internal accounting control, procedures for safeguarding securities, or as otherwise defined in paragraph (g)(3) of this section, then the independent public accountant shall call it to the attention of the chief financial officer of the broker or dealer, who shall have a responsibility to inform the Commission and the designated examining authority by telegraphic or facsimile notice within 24 hours thereafter as set forth in Rule 17a-11(e) and (g). The broker or dealer shall also furnish the accountant with a copy of said notice to the Commission by telegram or facsimile within said 24 hour period. If the accountant fails to receive such notice from the broker or dealer within said 24 hour period, or if the accountant disagrees with the statements contained in the notice of the broker or dealer, the accountant shall have a responsibility to inform the Commission and the designated examining authority by report of material inadequacy within 24 hours thereafter as set forth in Rule 17a-11(g). Such report from the accountant shall, if the broker or dealer failed to file a notice, describe any material inadequacies found to exist. If the broker or dealer filed a notice, the accountant shall file a report detailing the aspects, if any, of the broker's or dealer's notice with which the accountant does not agree.

i. Accountant's reports, general provisions

1. Technical requirements. The accountant's report shall:

- i. Be dated;
- ii. Be signed manually;
- iii. Indicate the city and state where issued; and
- iv. Identify without detailed enumeration the financial statements and schedules covered by the report.

2. Representations as to the audit. The accountant's report shall:

- i. State whether the audit was made in accordance with generally accepted auditing standards;
- ii. State whether the accountant reviewed the procedures followed for safeguarding securities; and
- iii. Designate any auditing procedures deemed necessary by the accountant under the circumstances of the particular case which have been omitted, and the reason for their omission.

Nothing in this section shall be construed to imply authority for the omission of any procedure which independent accountants would ordinarily employ in the course of an audit made for the purpose of expressing the opinions required under this section.

3. Opinion to be expressed. The accountant's report shall state clearly the opinion of the accountant:

- i. In respect of the financial statements and schedules covered by the report and the accounting principles and practices reflected therein; and
- ii. as to the consistency of the application of the accounting principles, or as to any changes in such principles which have a material effect on the financial statements.

Appendix B

Example Auditor's Standard Report^{1/}

Independent Auditor's Report

Board of Directors
Standard Stockbrokerage Co., Inc.:

We have audited the accompanying [*consolidated*] statement of financial condition of Standard Stockbrokerage Co., Inc., [*and Subsidiaries*] (the Company) as of December 31, 20X9, and the related [*consolidated*] statements of income, changes in stockholders' equity, changes in liabilities subordinated to claims of general creditors, and cash flows for the year then ended that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. [*Optional: An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.*]^{2/} An audit includes examining, on a test basis, evidence supporting the

^{1/} Excerpted from the *Audit and Accounting Guide for Brokers and Dealers in Securities*, Appendix A.

^{2/} This optional wording may be added in accordance with Interpretation No. 17, "Clarification in the Audit Report of the Extent of Testing of Internal Control Over Financial Reporting in Accordance With Generally Accepted Auditing Standards," of AU section 508 (AICPA, *Professional Standards*, vol. 1, AU sec. 9508 par. .85-.88), which provides reporting guidance for audits of non-issuers. Interpretation No. 17 addresses how auditors may expand their independent audit report to explain that their consideration of internal control was sufficient to provide the auditor sufficient understanding to plan the audit and determine the nature, timing and extent of tests to be performed, but was not sufficient to express an opinion on the effectiveness of the internal control. If this optional language is added, then the remainder of the paragraph

amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.^{3/}

In our opinion, the [*consolidated*] financial statements referred to above present fairly, in all material respects, the financial position of Standard Stockbrokerage Co., Inc. [*and Subsidiaries*] as of December 31, 20X9, and the results of its [*their*] operations and its [*their*] cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules I, II, III, and IV is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Accounting Firm
New York, New York
February 15, 20Y0

should read as follows: An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

^{3/} See paragraphs 3.113-119 in chapter 3 for information on obtaining confidential treatment of the financial statements from the SEC and Commodity Futures Trading Commission.

Appendix C

Example Report on Internal Control Required by SEC Rule 17a-5(g)(1)¹

Board of Directors
Standard Stockbrokerage Co., Inc.:

In planning and performing our audit of the [*consolidated*] financial statements of Standard Stockbrokerage Co., Inc. [*and Subsidiaries*] (the Company), as of and for the year ended December 31, 20X8, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the [*consolidated*] financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company, including consideration of control activities for safeguarding securities. This study included tests of compliance with such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g), in the following:

1. Making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and the reserve required by Rule 15c3-3(e)
2. Making the quarterly securities examinations, counts, verifications, and comparisons, and the recordation of differences required by Rule 17a-13
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System
4. Obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by Rule 15c3-3

^{1/} Excerpted from the *Audit and Accounting Guide for Brokers and Dealers in Securities*, Appendix B.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls, and of the practices and procedures referred to in the preceding paragraph, and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

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

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency*² is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement

² On May 24, 2007, the PCAOB approved PCAOB Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements* (AICPA, *PCAOB Standards and Related Rules*, Auditing Standards). The Securities and Exchange Commission (SEC) approved Auditing Standard No. 5 on July 25, 2007 and it is effective for all audits of internal control for fiscal years ending on or after November 15, 2007. Included in Auditing Standard No. 5 are new definitions for significant deficiency and material weakness.

of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses, as defined above.^{3/}

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and

^{3/} Paragraph .28 of AICPA AU section 325A notes that if significant deficiencies are identified, this paragraph may be modified by inserting, "However, we identified certain deficiencies in internal control that we consider to be significant deficiencies, and communicated them in writing to management and those charged with governance on [date]." Paragraph .29 of AU section 325A states that the auditor should not issue a written communication stating that no significant deficiencies were identified because of the potential for misinterpretation of the limited degree of assurance provided by such a communication.

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

However, we identified the following deficiencies in [*internal control or control activities for safeguarding securities*] that we consider to be material weaknesses, as defined above. These conditions were considered in determining the nature, timing, and extent of the procedures performed in our audit of the [*consolidated*] financial statements of Standard Stockbrokerage Co., Inc. [*and Subsidiaries*] as of and for the year ended December 31, 20X8, and this report does not affect our report thereon dated February 15, 20X9. [*A description of the material weaknesses that have come to the auditor's attention and corrective action.*]

procedures, as described in the second paragraph of this report, were adequate at December 31, 20X8, to meet the SEC's objectives.^{4/}

This report is intended solely for the information and use of the Board of Directors, management, the SEC, [*Designated self-regulatory organization*], and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

Accounting Firm
New York, New York
February 15, 20X9

^{4/} Whenever inadequacies are described, the last sentence of this paragraph should be modified as per footnote 3. The report should also describe material inadequacies that the auditor becomes aware of that existed during the period but were corrected prior to the end of the period, unless management already has reported them to the SEC.

Appendix D

Example Independent Accountants' Report on Applying Agreed-Upon Procedures Related to an Entity's SIPC Assessment Reconciliation^{1/}

To the Board of Directors of Standard Stockbrokerage Co., Inc.

In accordance with Rule 17a-5(e)(4) under the Securities Exchange Act of 1934, we have performed the procedures enumerated below with respect to the accompanying Schedule of Assessment and Payments [Transitional Assessment Reconciliation (Form SIPC-7T)] to the Securities Investor Protection Corporation (SIPC) for the Year Ended December 31, 20X9, which were agreed to by Standard Stockbrokerage Co., Inc. and the Securities and Exchange Commission, Financial Industry Regulatory Authority, Inc., SIPC and [other designated examining authority or *specified parties of report*], solely to assist you and the other specified parties in evaluating Standard Stockbrokerage Co., Inc.'s compliance with the applicable instructions of the Transitional Assessment Reconciliation (Form SIPC-7T). Standard Stockbrokerage Co., Inc.'s management is responsible for the Standard Stockbrokerage Co., Inc.'s compliance with those requirements. 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 those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. The procedures we performed and our findings are as follows:

1. Compared the listed assessment payments in Form SIPC-7T with respective cash disbursement records entries [*Insert description of disbursement records*] noting no differences;
2. Compared the amounts reported on the audited Form X-17A-5 for the year ended December 31, 20x9, as applicable, with the amounts reported in Form SIPC-7T for the year ended December 31, 20X9, noting no differences;
3. Compared any adjustments reported in Form SIPC-7T with supporting schedules and working papers [*Insert description of supporting schedules and working papers*] noting no differences;

^{1/} Excerpted from the *Audit and Accounting Guide for Brokers and Dealers in Securities*, Appendix G.

4. Proved the arithmetical accuracy of the calculations reflected in Form SIPC-7T and in the related schedules and working papers [*Insert description of supporting schedules and working papers*] supporting the adjustments noting no differences; And
5. Compared the amount of any overpayment applied to the current assessment with the Form SIPC-7T on which it was originally computed noting no differences [*if applicable*].

We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on compliance. 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 the specified parties listed above and is not intended to be and should not be used by anyone other than these specified parties.

February 15, 20Y0