

October 10, 2017

This publication, which consists of an illustrative report, assertion, and description of controls and control objectives, has been prepared by the AICPA Investment Companies Expert Panel and staff, and is an other attestation publication, as defined in AT-C Section 105, Concepts Common to All Attestation Engagements (AICPA, Professional Standards). Other attestation publications have no authoritative status; however, they may help a practitioner understand and apply the Statements on Standards for Attestation Engagements.

If a practitioner applies the attestation guidance included in an other attestation publication, he or she should be satisfied that, in his or her judgment, it is both relevant to the circumstances of the attestation engagement and appropriate. The attestation guidance in this document has been reviewed by the AICPA Audit and Attest Standards staff and published by the AICPA and is presumed to be appropriate. This document has not been approved, disapproved, or otherwise acted on by a senior technical committee of the AICPA.

On September 9, 2010, the staff of the Division of Investment Management prepared responses to questions about the rule 206(4)-2, the "custody rule" under the Investment Advisers Act of 1940. One of the responses contained a link to this page and referred to a report developed under AT 101, Attest Engagements. The reports currently presented on this page have been updated to reflect Statement on Standards for Attestation Engagements No. 18, Attestation Standards: Clarification and Recodification, issued September 2016. The AT sections in AICPA Professional Standards remained effective through April 2017, by which time substantially all engagements for which the AT sections were still effective were expected to be completed.

**Illustrative Report of Independent Registered Public Accounting Firm
on Management's Assertion Regarding Controls at a Custodian Pursuant to Rule 206(4)-2
and Release No. IA-2969 Under the Investment Advisers Act of 1940**

Report of Independent Registered Public Accounting Firm

To the Board of Directors of
XYZ Custodian, Inc.^{fn 1}

[Scope paragraph]

We have examined the assertion made by the management of XYZ Custodian, Inc. (XYZ Custodian), pertaining to its controls over the custody of client funds and securities for

^{fn 1} If no board of directors exists, identify the equivalent body with oversight responsibility.

registered investment advisers that are related persons, as that term is defined in Rule 206(4)-2 under the Investment Advisers Act of 1940 (related persons). Management's assertion is presented in the accompanying document titled, "Management's Assertion Regarding XYZ Custodian's Controls Over Custody Pursuant to Rule 206(4)-2 Under the Investment Advisers Act of 1940 (the Act)." Management has established certain control objectives (specified control objectives) and related controls pertaining to custody services, including the safeguarding of client funds and securities, pursuant to Rule 206(4)-2 and Release No. IA-2969 under the Act. XYZ Custodian's specified control objectives and the related controls are included in the accompanying document, "Description of XYZ Custodian's Controls and Control Objectives Pursuant to Rule 206(4)-2 and Release No. IA-2969 under the Act" (management's description), which is incorporated by reference in management's assertion.

[The following paragraph should be added to the report if certain control objectives, or parts thereof, are addressed in a report on a subservice provider's controls or in another (other) report(s) on the custodian's controls and are excluded from management's assertion and description.]

As indicated in management's assertion and description, XYZ Custodian uses [*name or type of subservice provider(s)*] to perform [*function performed by the subservice provider*]. Management's description indicates that the specified control objective(s)^{fn2} related to [*specify the subject matter of the control objective(s), or parts thereof, addressed in the report on the subservice provider's controls*] are addressed in an examination report on the subservice provider's controls issued by an independent registered public accounting firm.^{fn3} In addition, management's description indicates that XYZ Custodian's specified control objectives^{fn4} related to [*specify the subject matter of the control objective(s), or parts thereof, addressed in a another report on the custodian's controls*] are addressed in another examination report issued by an independent registered public accounting firm. Because [*parts of*] these control objectives are excluded from management's assertion and description, the scope of our work did not include examining the design, implementation, or operating effectiveness of controls to achieve [*those parts of*] the control objectives and we do not express an opinion thereon.

Management's assertion states that

^{fn 2} If only certain controls within a control objective are addressed in the examination report, state "certain controls to meet the specified control objective(s)."

^{fn 3} The report on controls would cover the suitability of the design, implementation, and operating effectiveness of the controls.

^{fn 4} If only certain controls within a control objective are addressed in the examination report, state "certain controls to meet XYZ Custodian's specified control objective(s)."

- the controls described in management's description were suitably designed and implemented throughout the period January 1, 20X1, to December 31, 20X1, to provide reasonable assurance that the specified control objectives set forth therein would be achieved, if those controls were complied with satisfactorily [*and related persons applied the complementary user entity controls contemplated in the design of XYZ Custodian's controls throughout the period January 1, 20X1, to December 31, 20X1*] and
- the controls set forth in management's description were operating with sufficient effectiveness to provide reasonable assurance that the specified control objectives included in the description were achieved throughout the period January 1, 20X1, to December 31, 20X1 [*if related persons applied the complementary user entity controls contemplated in the design of XYZ Custodian's controls throughout the period January 1, 20X1, to December 31, 20X1*].

[Responsibilities paragraph]

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

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether management's assertion is fairly stated in all material respects. An examination involves performing procedures to obtain evidence about management's assertion. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of management's assertion, whether due to fraud or error.

Included among our procedures were [*provide a brief description of the procedures performed, including the nature, timing, extent, and results thereof, to verify that funds and securities are reconciled to depositories and unaffiliated custodians, such as confirming and reconciling a sample of security positions with unaffiliated custodians and depositories and/or alternative procedures used to verify that the data used in reconciliations is unaltered*] as of [*identify date(s) selected for testing*]. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination was limited to examining, for the purposes described above, management's assertion about the specified control objectives and related controls included in management's description and did not consider any other control objectives or controls that may be relevant to XYZ Custodian's or the related persons' internal control over the custody of securities and funds for any specific client or clients of XYZ Custodian. Further, the relative effectiveness and significance of controls at XYZ Custodian, and their effect on related persons' internal control over custody of securities and funds, are dependent on their interaction with the controls and other factors present at individual related persons. We have performed no procedures to evaluate the effectiveness of such controls or such other factors at individual related persons.

The control objectives and related controls set forth in management's description have been provided to assist the related persons that use XYZ Custodian's services with their compliance with the requirements of SEC Rule 206(4)-2 under the Investment Advisers Act of 1940.

[Inherent limitations paragraph]

Management's description covers the period January 1, 20X1, to 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 controls in existence. The potential effectiveness of controls to achieve the specified control objectives is subject to inherent limitations and, accordingly, 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; that the degree of compliance with such controls may deteriorate; or that 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.

[Restricted use paragraph]

This report is intended solely for the information and use of XYZ Custodian; related persons that used XYZ Custodian's services during some or all of the period [January 1, 20X1, to December 31, 20X1]; the independent registered public accounting firms of such related persons; and the SEC and is not intended to be and should not be used by anyone other than these specified parties.

[Signature of Independent Registered Public Accountant]

[Anytown, USA]

[Date]

Illustrative Management Assertion^{fn 5}
Regarding XYZ Custodian's Controls Over Custody
Pursuant to Rule 206(4)-2 Under the Investment Advisers Act of 1940

XYZ Custodian provides custody services to registered investment advisers that are related persons, as that term is defined in Rule 206(4)-2 under the Investment Advisers Act of 1940 (related persons). Management has established certain control objectives (specified control objectives) and related controls pertaining to its custody services, including the safeguarding of client funds and securities, pursuant to Rule 206(4)-2 and Release No. IA-2969 under the Act. These specified control objectives and related controls are the responsibility of XYZ Custodian and are presented in the accompanying document, "Description of XYZ Custodian's Controls and Control Objectives Pursuant to Rule 206(4)-2 and Release No. IA-2969 Under the Act" (description), which is incorporated by reference in this assertion. We, as members of management of XYZ Custodian, are responsible for the description;^{fn 6} for establishing the specified control objectives and related controls; and for the suitability of the design, implementation, and operating effectiveness of the controls.

The description is provided to enable related persons, when performing their annual evaluation of compliance with Rule 206(4)-2 under the Act, to consider such information, along with information about their own controls over the custody of client funds and securities.

[The following paragraph should be added to the assertion if certain control objectives, or parts thereof, are excluded from the description and are addressed in a report on the subservice provider's controls or in another report on the custodian's controls. Management's description should include an appendix that identifies the control objectives that are excluded from the description and identifies the internal control report(s) in which those controls are addressed.]

The appendix to the description identifies the control objectives, or parts thereof, that are excluded from the description and addressed in reports on the subservice provider's controls or in another report on XYZ Custodian's controls.

^{fn 5} In the event that management identifies a material misstatement or deviation from the criteria, the practitioner should follow the guidance in [paragraph .79](#) of AT-C section 205, *Examination Engagements (AICPA Professional Standards)*, and report directly on the subject matter, not the assertion.

^{fn 6} The description should identify the nature of any subservice providers used, the functions they perform, and whether the relevant control objectives and related controls of the subservice provider are excluded from the description. If the subservice provider's controls are excluded from the description, the description would, however, include relevant user entity controls and monitoring controls over the subservice provider. Control objectives and related controls that are excluded from the description should be the subject of an examination of design, implementation, and operating effectiveness by a registered public accounting firm.

We have evaluated whether XYZ Custodian’s controls were suitably designed, implemented, and operating effectively to achieve the specified control objectives throughout the period January 1, 20X1, to December 31, 20X1. The criteria against which the controls were evaluated are the specified control objectives included in the description. Based on our evaluation, we assert that

- the controls included in the description were suitably designed and implemented throughout the period January 1, 20X1, to December 31, 20X1, to provide reasonable assurance that the specified control objectives ^{fn 7} would be achieved, if those controls were complied with satisfactorily [*and related persons applied the complementary user entity controls contemplated in the design of XYZ Custodian’s controls throughout the period from January 1, 20X1, to December 31, 20X1*] ^{fn 8} and
- the controls set forth in the description were operating with sufficient effectiveness to provide reasonable assurance that the specified control objectives included in our description were achieved throughout the period January 1, 20X1, to December 31, 20X1 [*if related persons applied the complementary user entity controls contemplated in the design of XYZ Custodian’s controls throughout 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*]

^{fn 7} The control objectives and related controls included in the description (unless covered in another report on the service organization’s controls or a report on controls at a subservice provider) address the areas of client account setup and maintenance, authorization and processing of client transactions, security maintenance and setup, processing of income and corporate action transactions, reconciliation of funds and securities to depositories and other unaffiliated custodians, and client reporting. Relevant general computer controls should also be included in the description when automated controls or reliance on computer-generated information are material elements of addressing control objectives.

^{fn 8} Refer to complementary user entity controls only in situations in which the application of controls by the registered investment adviser is necessary to achieve the specified control objectives. Otherwise, omit the reference.

Illustrative Description of XYZ Custodian’s Controls and Control Objectives Pursuant to Rule 206(4)-2 and Release No. IA-2969 Under the Act

[In instances where the service organization uses any subservice providers, include in this section a description of the nature and functions they perform, and whether the relevant control objectives and related controls of the subservice provider are excluded from the description. If control objectives and/or related controls are so excluded from the description, include the relevant service organization controls, including monitoring controls over the subservice provider, under "Control Activities" in the control matrix below.]

XYZ Custodian’s Control Objectives Pursuant to Rule 206(4)-2 and Release No. IA-2969 Under the Act <small>fn 9</small>	Control Activities <small>fn 10</small>	Related-Person Investment Adviser Considerations, if Necessary <small>fn 11</small>
Controls provide reasonable assurance that documentation for the opening and modification of client accounts is received, authenticated, and established completely, accurately, and timely on the applicable system.	<ul style="list-style-type: none"> • A new account setup specialist compares the details of new accounts in the system with the source documentation and evidences this procedure with a signature after the review is complete. Any discrepancies are forwarded to the individual who set up the account for reprocessing. 	<ul style="list-style-type: none"> • The related-person investment adviser is responsible for submitting accurate, complete, and authorized account information in a timely manner. • The related-person investment adviser is responsible for coordinating the account funding and providing instructions for the delivery of assets.
Controls provide reasonable assurance that client transactions, including contributions and withdrawals, are authorized and processed in a complete, accurate, and timely manner.		
Controls provide reasonable assurance that trades are properly authorized, settled, and recorded completely, accurately, and timely in the client account.		

fn 9 If there are substantive differences between XYZ Custodian’s control objectives and those in Interpretive Release No. IA-2969, *Commission Guidance Regarding Independent Public Accountant Engagements Performed Pursuant to Rule 206(4)-2 Under the Investment Advisers Act of 1940*, of Rule 206(4)-2 of the Investment Advisers Act of 1940, those differences should be explained in the appendix.

fn 10 The control activities and related person considerations shown for the initial objective are intended to be illustrative and should be tailored to the circumstances of the entity that is the subject of the report. They are not intended to represent required or recommended controls.

fn 11 See [footnote 10](#).

XYZ Custodian’s Control Objectives Pursuant to Rule 206(4)-2 and Release No. IA-2969 Under the Act fn 9	Control Activities fn 10	Related-Person Investment Adviser Considerations, if Necessary fn 11
Controls provide reasonable assurance that new securities and changes to securities are authorized and established in a complete, accurate, and timely manner.		
Controls provide reasonable assurance that securities income and corporate action transactions are processed to client accounts in a complete, accurate, and timely manner.		
Controls provide reasonable assurance that physical securities are safeguarded from loss or misappropriation.		
Controls provide reasonable assurance that cash and security positions are reconciled completely, accurately, and on a timely basis between the custodian and depositories.		
Controls provide reasonable assurance that account statements reflecting cash and security positions are provided to clients in a complete, accurate, and timely manner.		

Relevant General Computer Control Objectives fn 12	Control Activities	Related-Person Investment Adviser Considerations, if Necessary
Controls provide reasonable assurance that logical access to programs, data, and computer resources is restricted to authorized and appropriate users and such users are restricted to performing authorized and appropriate actions.		
Controls provide reasonable assurance that physical access to computer and other resources is restricted to authorized and appropriate personnel.		
Controls provide reasonable assurance that changes to application programs		

fn 12 These relevant general computer control objectives are included for illustrative purposes only. While not identical, these are leveraged from the illustrative general computer control objectives in the AICPA Guide [Service Organizations: Reporting on Controls at a Service Organization Relevant to User Entities’ Internal Control Over Financial Reporting](#). They may be included in the description when automated controls or reliance on computer-generated information is important to the achievement of the control objectives.

Relevant General Computer Control Objectives ^{fn 12}	Control Activities	Related-Person Investment Adviser Considerations, if Necessary
and related data management systems are authorized, tested, documented, approved, and implemented to result in the complete, accurate, and timely processing and reporting of transactions and balances.		
Controls provide reasonable assurance that network infrastructure is configured as authorized to support the effective functioning of application controls to result in valid, complete, accurate, and timely processing and reporting of transactions and balances and protect data from unauthorized changes.		
Controls provide reasonable assurance that application and system processing are authorized and executed in a complete, accurate, and timely manner and deviations, problems, and errors are identified, tracked, recorded, and resolved in a complete, accurate, and timely manner.		
Controls provide reasonable assurance that data transmissions between the service organization and its user entities and other outside entities are from authorized sources and are complete, accurate, secure, and timely.		

Appendix ^{fn 13}

Illustrative Mapping of Control Objectives Pursuant to Rule 206(4)-2 and Release No. IA-2969 Under the Act to Independent Registered Public Accounting Reports on Controls

Control Objectives Pursuant to Rule 206(4)-2 and Release No. IA-2969 Under the Act	Report on XYZ Custodian’s Controls Over Custody Pursuant to Rule 206(4)-2 Under the Investment Advisers Act of 1940	Service Auditor’s Type 2 Report on ABC Trust Services for the Period January 1, 201X, to June 30, 201X	Service Auditor’s Type 2 Report on DEF Subservice Organization’s Controls Over Its Subcustodian’s Services for the Period January 1, 201X, to June 30, 201X
Controls provide reasonable assurance that documentation for the opening and modification of client accounts is received, authenticated, and established completely, accurately, and timely on the applicable system.			
Controls provide reasonable assurance that client transactions, including contributions and withdrawals, are authorized and processed in a complete, accurate, and timely manner.			
Controls provide reasonable assurance that trades are properly authorized, settled, and recorded completely, accurately, and timely in the client account.			
Controls provide reasonable assurance that new securities and changes to securities are authorized and established in a complete, accurate, and timely manner.			
Controls provide reasonable assurance that securities income and corporate action transactions are processed to			

^{fn 13} When control objectives or parts thereof are excluded from the description and covered in another report on the service organization’s controls or a report on a subservice provider’s controls, this mapping should be included as an appendix to management’s description. The appendix should include a column for each report identifying the control objective(s) from Release No. IA-2969 covered by that report. When all the control objectives are fully covered in the description, this mapping is not necessary. In completing the mapping, checkmarks, explanations of particular facts and circumstances, or a combination of both, may be used to indicate the applicability of the report to the specific control objective(s).

Control Objectives Pursuant to Rule 206(4)-2 and Release No. IA-2969 Under the Act	Report on XYZ Custodian's Controls Over Custody Pursuant to Rule 206(4)-2 Under the Investment Advisers Act of 1940	Service Auditor's Type 2 Report on ABC Trust Services for the Period January 1, 201X, to June 30, 201X	Service Auditor's Type 2 Report on DEF Subservice Organization's Controls Over Its Subcustodian's Services for the Period January 1, 201X, to June 30, 201X
client accounts in a complete, accurate, and timely manner.			
Controls provide reasonable assurance that physical securities are safeguarded from loss or misappropriation.			
Controls provide reasonable assurance that cash and security positions are reconciled completely, accurately, and on a timely basis between the custodian and depositories.			
Controls provide reasonable assurance that account statements reflecting cash and security positions are provided to clients in a complete, accurate, and timely manner.			