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**UNITED STATES**  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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**ANNUAL AUDITED REPORT**  
**FORM X-17A-5**  
**PART III**

SEC  
Processing  
Section  
FEB 28 2013  
Washington DC

SEC FILE NUMBER  
8-36472

**FACING PAGE**  
**Information Required of Brokers and Dealers Pursuant to Section 17 of the**  
**Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING AND ENDING January 1, 2012 December 31, 2012

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER:   
Spectrum Asset Management, Inc.

OFFICIAL USE ONLY  
FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
2 High Ridge Park  
Stamford, Connecticut 06905

(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
Jean M. Orlando 203-322-0189  
(Area Code - Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*  
Ernst & Young LLP

801 Grand Avenue, Suite 3000, Des Moines, Iowa 50309  
(Address) (City) (State) (Zip Code)

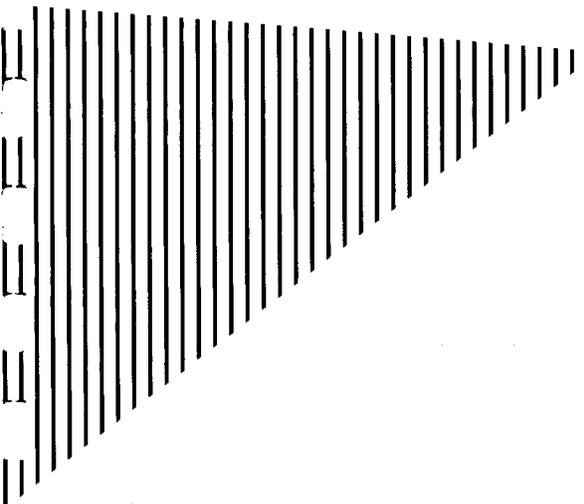
- CHECK ONE:**  
 Certified Public Accountant  
 Public Accountant  
 Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).  
SEC 1410 (6-02)

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Handwritten signature and date: *[Signature]*  
*5/9/13*



FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION

Spectrum Asset Management, Inc.  
Years Ended December 31, 2012 and 2011  
With Report of Independent Registered  
Public Accounting Firm

Ernst & Young LLP

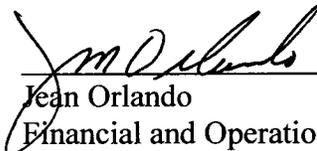
 **ERNST & YOUNG**

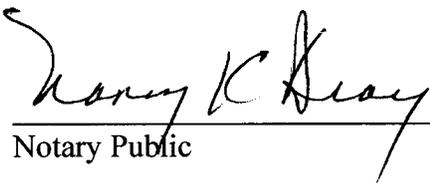
**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**Spectrum Asset Management, Inc.  
Years Ended December 31, 2012 and 2011  
With Report of Independent Registered  
Public Accounting Firm**

## Oath or Affirmation

I, Jean Orlando, affirm that, to the best of my knowledge and belief, the accompanying financial statements and supplemental information pertaining to the firm of Spectrum Asset Management, Inc. as of December 31, 2012, are true and correct. I further affirm that neither the Company nor any principal officer or director has any proprietary interest in any account classified solely as that of a customer.

  
\_\_\_\_\_  
Jean Orlando  
Financial and Operations Principal

  
\_\_\_\_\_  
Notary Public

NANCY K. DRAY  
Notary Public  
My Commission Expires November 30, 2013

This report contains:

- (a) Facing page
- (b) Statement of Financial Condition
- (c) Statement of Operations
- (d) Statement of Cash Flows
- (e) Statement of Changes in Stockholder's Equity
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors
- (g) Computation of Net Capital
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3
- (j) A reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3
- (k) A reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation
- (l) An Oath or Affirmation
- (m) A copy of the SIPC Supplemental Report
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

Spectrum Asset Management, Inc.

Financial Statements and  
Supplemental Information

Years Ended December 31, 2012 and 2011

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## Report of Independent Registered Public Accounting Firm

The Board of Directors  
Spectrum Asset Management, Inc.

We have audited the accompanying financial statements of Spectrum Asset Management, Inc., (the Company), which comprise the statements of financial condition as of December 31, 2012 and 2011, and the related statements of operations, changes in stockholder's equity, and cash flows for the years then ended that are filed pursuant to Rule 17a-5 under the Securities Exchange Act of 1934, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Spectrum Asset Management, Inc. as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

## **Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The information contained in the supplemental schedules is presented for purposes of additional analysis and is not a required part of the financial statements, but is supplementary information required by rule 17a-5 under the Securities Exchange Act of 1934. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

February 26, 2013

*Ernst & Young LLP*

Spectrum Asset Management, Inc.

Statements of Financial Condition

	<b>December 31</b>	
	<b>2012</b>	<b>2011</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 3,641,827	\$ 9,359,699
Management fees and commissions receivable:		
Affiliated	1,222,728	826,792
Non-affiliated	4,669,470	2,734,755
Fixed assets, net	197,840	286,065
Deferred income taxes	206,485	154,201
Other assets	10,415	19,868
<b>Total assets</b>	<b>\$ 9,948,765</b>	<b>\$ 13,381,380</b>
<b>Liabilities and stockholder's equity</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 115,483	\$ 71,583
Accrued compensation	3,302,303	4,870,639
Income taxes payable to affiliates	1,078,578	845,324
Due to affiliates	456,968	3,333,074
	<b>4,953,332</b>	<b>9,120,620</b>
<b>Stockholder's equity:</b>		
Common stock, no par value – 100,000 shares authorized, issued and outstanding	663,500	663,500
Additional paid-in capital	1,030,000	1,142,500
Retained earnings	3,301,933	2,454,760
<b>Total stockholders' equity</b>	<b>4,995,433</b>	<b>4,260,760</b>
<b>Total liabilities and stockholder's equity</b>	<b>\$ 9,948,765</b>	<b>\$ 13,381,380</b>

*See accompanying notes.*

Spectrum Asset Management, Inc.

Statements of Operations

	<b>Year Ended December 31</b>	
	<b>2012</b>	<b>2011</b>
<b>Revenues</b>		
Management fees	\$ 33,795,502	\$ 31,954,065
Commissions	944,458	654,327
Interest income	8,998	10,171
Total revenues	<u>34,748,958</u>	<u>32,618,563</u>
<b>Expenses</b>		
Compensation and related expense	16,256,751	15,079,526
Other operating expenses	3,401,939	3,023,041
Total expenses	<u>19,658,690</u>	<u>18,102,567</u>
Income before income tax expense	15,090,268	14,515,996
Income tax expense	5,534,638	4,974,413
Net income	<u>\$ 9,555,630</u>	<u>\$ 9,541,583</u>

*See accompanying notes.*

Spectrum Asset Management, Inc.

Statements of Changes in Stockholder's Equity

	<b>Common Stock</b>	<b>Additional Paid-In Capital</b>	<b>Retained Earnings</b>	<b>Total Stockholder's Equity</b>
Balance at January 1, 2011	\$ 663,500	\$ 1,281,250	\$ 2,128,520	\$ 4,073,270
Net income	-	-	9,541,583	9,541,583
Return of capital	-	(138,750)	-	(138,750)
Dividend to parent	-	-	(9,215,343)	(9,215,343)
Balance at December 31, 2011	663,500	1,142,500	2,454,760	4,260,760
Net income	-	-	9,555,630	9,555,630
Return of capital	-	(112,500)	-	(112,500)
Dividend to parent	-	-	(8,708,457)	(8,708,457)
Balance at December 31, 2012	<b>\$ 663,500</b>	<b>\$ 1,030,000</b>	<b>\$ 3,301,933</b>	<b>\$ 4,995,433</b>

*See accompanying notes.*

Spectrum Asset Management, Inc.

Statements of Cash Flows

	<b>Year Ended December 31</b>	
	<b>2012</b>	<b>2011</b>
<b>Operating activities</b>		
Net income	\$ 9,555,630	\$ 9,541,583
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	102,982	113,737
Deferred income taxes	(52,284)	(20,433)
Changes in operating assets and liabilities:		
Management fees and commissions receivable	(2,330,651)	(342,458)
Other assets	9,453	(19,868)
Accounts payable	43,900	(3,206)
Accrued compensation	(1,568,336)	1,281,425
Due to affiliates	(2,876,106)	1,331,057
Income taxes payable to affiliates	233,254	45,873
Net cash provided by operating activities	3,117,842	11,927,710
<b>Investing activities</b>		
Purchases of fixed assets	(14,757)	(2,638)
Net cash used in investing activities	(14,757)	(2,638)
<b>Financing activities</b>		
Dividend paid to Principal Global Investors, LLC	(8,708,457)	(9,215,343)
Return of capital to Principal Global Investors, LLC	(112,500)	(138,750)
Net cash used in financing activities	(8,820,957)	(9,354,093)
Net increase (decrease) in cash and cash equivalents	(5,717,872)	2,570,979
Cash and cash equivalents at beginning of year	9,359,699	6,788,720
Cash and cash equivalents at end of year	\$ 3,641,827	\$ 9,359,699
Income taxes paid	\$ 5,353,668	\$ 4,948,973

*See accompanying notes.*

# Spectrum Asset Management, Inc.

## Notes to Financial Statements

December 31, 2012

### 1. Organization

#### Organization and Nature of Business

Spectrum Asset Management, Inc. (the Company) is a registered investment advisor, broker-dealer, and commodity-introducing broker. The Company is a member of the Financial Industry Regulatory Authority (FINRA), providing investment management and security investment brokerage for institutional clients. The Company is also a manager of domestic investment portfolios for corporate, government, and mutual fund clients. The Company primarily specializes in the management of fixed-rate preferred stocks and cash. To minimize principal fluctuations, the Company uses its proprietary hedging strategy to establish a cross-hedge with U.S. Treasury futures. The derivative instruments are entered into by the Company's clients and are not reported in the financial statements of the Company. The Company clears its securities transactions on a fully disclosed basis through JP Morgan Clearing Corp.

The Company is a wholly owned subsidiary of Principal Global Investors, LLC (Principal Global). Principal Global is a wholly owned subsidiary of Principal Life Insurance Company (Principal Life).

### 2. New Accounting Pronouncements

In June 2011, the FASB issued authoritative guidance that changes the presentation of comprehensive income in the financial statements. The new guidance eliminates the presentation options contained in current guidance and instead requires entities to report components of comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements that show the components of net income and other comprehensive income, including adjustments for items that are reclassified from other comprehensive income to net income. The guidance does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. In December 2011, the FASB issued a final standard to defer the new requirement to present classification adjustments out of OCI to net income on the face of the financial statements. All other requirements contained in the original statement on comprehensive income are still effective. This guidance was effective for us on January 1, 2013, and is not expected to have a material impact on our financial statements.

## Spectrum Asset Management, Inc.

### Notes to Financial Statements (continued)

#### **3. Summary of Significant Accounting Policies**

##### **Cash and Cash Equivalents**

The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

##### **Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. It is possible that actual experience could differ from the estimates and assumptions utilized.

##### **Fixed Assets**

Fixed assets are comprised of furniture and equipment and leasehold improvements. Furniture and equipment are recorded at cost and are depreciated using the straight-line method over their estimated useful lives, which range from three to ten years. Additions and major renewals are capitalized. Maintenance, repairs, and minor renewals are expensed as incurred. Leasehold improvements are amortized over the shorter of their estimated useful lives or the term of the lease.

##### **Revenue Recognition**

The majority of the Company's revenues are derived from fees for investment management services provided to institutional and other clients. During 2012, 40% of the Company's revenues were derived from three unaffiliated customers. During 2011, 50% of the Company's revenues were derived from three unaffiliated customers. Investment management fees are generally a function of the overall fee rate charged to each account and the level of assets under management by the Company. Assets under management can be affected by the addition of new client accounts or client contributions to existing accounts, withdrawals of assets from or terminations of client accounts, and investment performance, which may depend on general market conditions. Investment management fees and brokerage commissions are accrued over the period in which services are performed.

Spectrum Asset Management, Inc.

Notes to Financial Statements (continued)

**3. Summary of Significant Accounting Policies (continued)**

**Subsequent Events**

The Company has evaluated subsequent events through the date that the financial statements were issued.

**Income Taxes**

The Company is taxed as a division of Principal Life at corporate rates based on existing tax laws. Current income taxes are charged or credited to operations based upon amounts estimated to be payable or recoverable as a result of taxable operations for the current year. Deferred income taxes are provided for the tax effect of temporary differences in the financial reporting and income tax basis of assets and liabilities and net operating losses using enacted income tax rates and laws. The effect on deferred income tax assets and deferred income tax liabilities of a change in tax rates is recognized in operations in the period in which the change is enacted.

**4. Fixed Assets**

	<b>December 31</b>	
	<b>2012</b>	<b>2011</b>
Fixed assets consisted of the following:		
Furniture and equipment and leasehold improvements	\$ 1,005,541	\$ 1,019,584
Less accumulated depreciation and amortization	(807,701)	(733,519)
	<u>\$ 197,840</u>	<u>\$ 286,065</u>

## Spectrum Asset Management, Inc.

### Notes to Financial Statements (continued)

#### 5. Leases

As of December 31, 2012, future minimum rentals under operating leases for office space and certain equipment that have initial or non-cancelable lease terms in excess of one year are as follows:

2013	\$ 265,154
2014	177,777
2015	8,876
2016	2,836
2017	—
Thereafter	—
	<u>\$ 454,643</u>

Rent expense for 2012 and 2011 totaled \$325,893 and \$308,707, respectively.

#### 6. Income Taxes

The Company's taxable income or loss is included in the consolidated income tax return filed by Principal Financial Group (PFG). PFG has adopted the policy of allocating income tax expense and benefits to members of its consolidated group based upon their pro rata contribution of taxable income or loss. Deferred income taxes have been established by each member of the consolidated group based upon temporary differences within each company. Taxes paid during 2012 and 2011 were \$5,353,668 and \$4,948,974, respectively.

Deferred taxes are provided for the temporary differences between the financial reporting and income tax bases of assets and liabilities using the enacted income tax rates and laws. Deferred income tax expenses or benefit is based on the change in the asset or liability from year to year. Deferred income tax assets arise primarily from differing methods used to account for expenses not deductible until future periods for tax purposes. Deferred income tax liabilities arise primarily from differences in depreciation methods for book and tax purposes. Net deferred income taxes are comprised of deferred income tax assets of \$206,485 and \$161,154 and deferred income tax liabilities of \$0 and \$6,953 at December 31, 2012 and 2011, respectively.

Spectrum Asset Management, Inc.

Notes to Financial Statements (continued)

**6. Income Taxes (continued)**

The Company's income tax expense (benefit) is as follows:

	<b>Year Ended December 31</b>	
	<b>2012</b>	<b>2011</b>
Current	<b>\$ 5,586,922</b>	<b>\$ 4,994,846</b>
Deferred	<b>(52,284)</b>	<b>(20,433)</b>
	<b><u>\$ 5,534,638</u></b>	<b><u>\$ 4,974,413</u></b>

Income tax expense for 2012 and 2011 differs from the expected income tax expense computed by applying the statutory federal income tax rates to income before income tax expense primarily due to amortization of goodwill recorded for income tax purposes.

The amount of tax contingencies calculated for the Company as of December 31, 2012 and 2011 is not material to the Company's financial position. Therefore, the total amount of tax contingencies, that if recognized, would affect the effective income tax rate is immaterial. The Company recognizes interest expense and penalties related to income taxes in other general expenses. The Company recognized no interest expense and penalties related to income tax as of December 31, 2012.

The Internal Revenue Service (IRS) has completed examination of PFG's consolidated federal income tax returns for years prior to 2004. PFG is contesting certain issues and have filed suit in the Court of Federal Claims, requesting refunds for the years 1995-2003. The issues PFG is contesting have no impact on the Company.

## Spectrum Asset Management, Inc.

### Notes to Financial Statements (continued)

#### **6. Income Taxes (continued)**

The IRS completed its examinations of tax years 2004 through 2005 and 2006 through 2008 during the second quarter of 2011 resulting in receipt of notices of deficiency dated April 6, 2011 and April 27, 2011, respectively. PFG paid the deficiencies (approximately \$62.1 million for 2004 and 2005 and approximately \$46.7 million for 2006 and 2008, including interest) in 2011. PFG filed claims for refund for tax years 2004 and 2005 during 2012 and will file claims for refund relating to disputed adjustments for tax years 2006 through 2008. The IRS commenced audit of PFG's federal income tax return for 2009 during the fourth quarter of 2011 and for 2010 during the first quarter of 2012. PFG expects the IRS to commence audit of its federal income tax return for 2011 during 2013. PFG and the Company do not expect the results of these audits or developments in other tax areas for all open tax years to significantly change the possible increase in the amount of unrecognized tax benefits, but the outcome of tax reviews is uncertain and unforeseen results can occur.

#### **7. Related-Party Transactions**

The Company provides investment and advisory services to funds managed by affiliates with fees totaling \$12,492,977 and \$10,027,030 in 2012 and 2011, respectively.

The Company reimburses Principal Global for employees' services and certain other operating costs, which are provided or initially paid by Principal Global and totaled \$19,388,794 and \$15,448,399 in 2012 and 2011, respectively.

#### **8. Regulatory Requirements**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined therein, shall not exceed 15 to 1. At December 31, 2012, the Company had defined net capital of \$717,690, which was \$387,468 in excess of its required minimum net capital of \$330,222. At December 31, 2012, the Company's ratio of aggregate indebtedness to net capital was 6.90 to 1. Various other regulatory agencies may impose additional capital requirements.

The Company is exempt from maintaining a special reserve bank account under Rule 15c3-3(k)(2)(ii).

## Supplementary Information



Spectrum Asset Management, Inc.

Computation of Net Capital – Part IIA (continued)

**Computation Basic of Net Capital Requirement**

**Part A**

11. Minimum net capital required (6 2/3% of line 19)	\$ 330,222
12. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A)	45,000
13. Net capital requirement (greater of line 11 or 12)	330,222
14. Excess net capital (line 10 less 13)	387,468
15. Excess net capital at 1000% (line 10 less 10% of line 19)	222,357

**Computation of Aggregate Indebtedness**

16. Total A.I. liabilities from statement of financial condition	4,953,332
17. Add:	
A. Drafts for immediate credit	
B. Market value of securities borrowed for which no equivalent value is paid or credited	
C. Other unrecorded amounts	
19. Total aggregate indebtedness	4,953,332
20. Percentage of aggregate indebtedness to net capital (line 19 ÷ by line 10)	690.18%
21. Percentage of debt to debt equity total computed in accordance with Rule 15c3-1(d)	0.00

**Notes**

- (A) The minimum net capital requirement should be computed by adding the minimum dollar net capital requirement of the reporting broker-dealer and, for each subsidiary to be consolidated, the greater of:
1. Minimum dollar net capital requirement, or
  2. 6 2/3% of aggregate indebtedness or 2% of aggregate debits if alternative method is used.
- (B) Do not deduct the value of securities borrowed under subordination agreements or secured demand note covered by subordination agreements not in satisfactory form and the market values of memberships in exchanges contributed for use of company (contra to Item 1740) and partners' securities that were included in non-allowable assets.
- (C) For reports filed pursuant to paragraph (d) of Rule 17a-5, respondent should provide a list of material non-allowable assets.

Spectrum Asset Management, Inc.

Statement Relating to Certain Determinations  
Required Under Rule 15c3-3 – Part IIA

December 31, 2012

**Computation for Determination of Reserve Requirements  
Pursuant to Rule 15c3-3:**

**Exemptive Provision**

22. If an exemption from Rule 15c3-3 is claimed, identify below the section upon which such exemption is based (check one only):

- A. (k)(1) – Limited business (mutual funds and/or variable annuities only)
- B. (k)(2)(i) – “Special Account for the Exclusive Benefit of Customers” maintained
- C. (k)(2)(ii) – All customer transactions cleared through another broker-dealer on a fully-disclosed basis. Name of clearing firm: JP Morgan Clearing Corp.
- D. (k)(3) – Exempted by order of the Commission

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_ X \_\_\_\_\_

\_\_\_\_\_

Spectrum Asset Management, Inc.

Statement Pursuant to Rule 17a-5(d)(4)

December 31, 2012

There are no differences between the computation of net capital under Rule 15c3-1 included in this audited report and the computation included in the Company's corresponding unaudited Form X-17A-5 Part IIA filing as of December 31, 2012.

Report of Independent Registered Public Accounting Firm on  
Applying Agreed-Upon Procedures

To the Board of Directors and Management of  
Spectrum Asset Management, Inc.:

We have performed the procedures enumerated below, which were agreed to by the Board of Directors and management of Spectrum Asset Management, Inc., the Securities Investor Protection Corporation (SIPC), the Securities and Exchange Commission, and the Financial Industry Regulatory Authority, in accordance with Rule 17a-5(e)(4) of the Securities Exchange Act of 1934. We performed the procedures solely to assist the specified parties in evaluating Spectrum Asset Management Inc.'s compliance with the applicable instructions of the General Assessment Reconciliation (Form SIPC-7) for the fiscal period January 1, 2012 through December 31, 2012. Spectrum Asset Management Inc.'s management is responsible for Spectrum Asset Management 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-7 with respective cash disbursement record entries, including a copy of the check and bank statement. There were no findings.
2. Compared the amounts reported on X-17A-5 with the amounts reported in Form SIPC-7 for the fiscal period January 1, 2012 to December 31, 2012. There were no findings.
3. Compared any adjustments reported in Form SIPC-7 with supporting schedules and working papers, including monthly revenue detail from the general ledger. There were no findings.
4. Proved the arithmetical accuracy of the calculations reflected in Form SIPC-7 and in the related supporting schedules and working papers supporting the adjustments. There were no findings.
5. Compared the amount of any overpayment applied to the current assessment with the Form SIPC-7 on which it was originally computed. There were no findings.

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We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the applicable instructions of the General Assessment Reconciliation (Form SIPC-7) for the fiscal period from January 1, 2012 to December 31, 2012. 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.

*Ernst + Young LLP*

February 26, 2012

Ernst & Young LLP

Assurance | Tax | Transactions | Advisory

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