

The International Association of Small Broker Dealers and Advisors

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The International Association of Small Broker-Dealers and Advisors,www.iasbda.com submits the following limited comment on the above referenced proposal .We believe that the costs assumed for this surprise audit may be unrealistic and unfair to small to medium advisors.The staff assumes an average cost of \$8,128 for over 9000 advisors. Release at p 47 with a \$250,000 cost for those firms needing an internal control report. Id at p.48.Average numbers are always problematic for those at the far ends of the spectrum.But more importantly we do not believe the number takes into account the potential liability for these surprise audits and how that must be factored into any cost estimate beyond the actual hours needed for the work We note that the profits for investment advice rise slowly with the accumulation of assets.Thus the firm with 30 million aum does not make a significant amount more than one with \$60 million aum.Yet the additional accounts resulting in that extra \$30 million may add significantly to the cost of the audit especially including the potential liability.In other words we think the added cost is disproportionate to the added compensation,a fact often present in one size fits all regulation.This proposal also comes at a time when the staff has begun sending client letters to individual IA clients which is certain to raise the compliance costs.The net effect here is the privatization of IA regulatory surveillance because of the Madoff case which occurred for the most part in a broker-dealer.

We have stated before that an alternative approach would be to raise the aum level for state regulation of IA's to 75-100 million aum.We were advised by a former senior official of NASSA that the states could handle regulation of 100 million aum.We think they could especially do so if these advisors were charged a modest fee to avoid the costs of the private audit While the commission may learn more from the comments of auditors themselves,we believe that the state alternative must be carefully examined and should have been included for comment .

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