July 20, 2009

Ms. Elizabeth M. Murphy  
Secretary  
United States Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-1090

RE: Proposed Amendments to Rule 206(4)-2  
Release No. IA-2876  
File No. S7-09-09

Dear Ms. Murphy:

McLean Asset Management Corporation (“MAMC”) appreciates the opportunity to provide comments to the proposed amendments to Rule 206(4)-2 under the Investment Advisers Act of 1940.

We are the managing principals of MAMC, an independent registered investment advisory firm, which has been providing investment advisory services since 1984. We are opposed to the Commission’s proposal to subject all registered investment advisers who have “custody” of client’s assets to an annual audit.

It appears that the impetus for the proposed amendments is the recent flurry of enforcement actions against investment advisers for alleged fraudulent conduct, including misappropriation of investor’s assets. These cases primarily involved advisors who engaged in the self custody of, or used an affiliated entity to custody, investor’s assets. The proposed amendments are designed to provide safeguards under such custody arrangements. It is understandable that where the registered investment adviser does not use a qualified independent custodian, a higher level of security and oversight is necessary. The proposed amendments address those needs.

However, where registered investment advisers, like MAMC use a third party independent custodian, such as TD Ameritrade, adequate oversight and safeguarding measures to protect investor’s assets from misappropriation are in place. As the independent custodian for MAMC client accounts, TD Ameritrade:

- Provides monthly statements to clients reflecting the value of the accounts and the transactions which occurred during the reporting period (daily access to account activity via the web is also available to the client);
- Limits the amount of fees that can be deducted from a client’s account, without express client authorization; and
- Requires that any distribution request which is not directed to the client’s checking account or residence of record must be authorized in writing by client – this includes the fees paid to MAMC as investment adviser.
Furthermore, MAMC provides clients quarterly statements which detail account activity and can be checked against TD Ameritrade’s monthly statements to clients. Perhaps mandating that all investment advisers utilize independent custodians is the more cost efficient and practical way to implement the safeguards the Commission seeks to impose. Certainly, the oversight provided by the independent custodians is less costly and time consuming than an annual “surprise” audit.

The proposed measures are also wider in scope than necessary to accomplish the Commission’s intended goals. The proposed amendment utilizes of the present definition of “custody”. Under this definition, because MAMC has the client’s written authorization to deduct advisory fees from a client’s account, it is deemed to have “custody”, even though MAMC does not have physical custody of the account assets, and works with an independent custodian which provides oversight. Under the Commission’s proposal, MAMC and similarly situated advisors will be subject to the annual audit requirement, solely due to their ability to deduct its advisory fees. It should be noted that the mere ability to withdraw its fees does not mean an advisor has unfettered control over its clients’ accounts. MAMC believes that the reach of the audit requirements far exceeds what is necessary to meet the Commission’s policy goals in a cost effective manner.

Moreover, the cost of the audits would outweigh the benefits attained in imposing audits on advisers who utilize independent custodians. The Commission estimates that the average cost of an annual audit would be about $8100. This cost combined with the attendant business disruption from an unannounced audit would be unnecessarily burdensome for small and medium investment advisory firms. For a firm like MAMC which already uses an independent custodian and falls within the scope of the amendments merely because its only form of custody is the automatic deduction of advisory fees, the annual audit proposal would neither enhance nor bolster the safeguarding of an investor’s assets from the fraudulent activity the Commission seeks to prevent. The utilization of an independent custodian inherently imposes the desired safeguards and addresses and minimizes the custody risks to clients’ accounts. Accordingly, we strongly urge the Commission to limit the scope of the proposed amendments and except from the annual audit requirements those investment advisors which: (i) are deemed to have “custody” solely as a result of their ability to withdraw advisory fees; and (ii) utilize independent third party custodians for client accounts.

Sincerely,

Dean T. Umemoto, Managing Principal

Alex Murguia, Managing Principal