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July 14, 2009

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OFFICE OF THE SECRETARY

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

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

Dear Ms. Murphy:

Tradition Capital Management thanks the Commission for the opportunity to express its views in response to the Securities and Exchange Commission's (the "Commission") request for comments on the proposed amendments to Rule 206(4)-2.

As a registered Adviser, under Rule 206(4)-2, we are deemed to have custody solely because we have the authority to deduct advisory fees from our clients' accounts. **ALL** assets managed by Tradition are maintained by an independent, qualified custodian. We firmly assert that the portion of the proposed Rule, which would require advisers with this barest form of custody to undergo an annual surprise audit, is completely unwarranted.

As required by current Rule 206(4)-2, the independent qualified custodian maintaining our clients' accounts delivers account statements, on at least a quarterly basis (with our firm, monthly), directly to clients, identifying the amount of cash, securities at market value at the end of the period, and all activity in our clients' accounts. As a result, our clients receive comprehensive account information directly from the qualified custodian and are thus able to monitor the activity in their accounts. Furthermore, our clients agree, in writing, that our advisory fees may be deducted directly from their advisory accounts.

Hence the following points:

1. Our safekeeping measures currently required by Rule 206(4)-2 provide our clients with the ability to sufficiently identify and detect erroneous or fraudulent transactions.
2. Recent abuses in the industry have not generally resulted solely because of arrangements whereby advisers have the authority to deduct fees from accounts

maintained at qualified independent custodians. The criminal enterprise of Bernard Madoff was one of asset existence and the fraudulent reporting thereof. Fee extraction from the accounts was incidental, and not central to the scheme, though did provide the illicit profit to Madoff. If our clients get, as they do now, fee statements from our firm as well as confirmation of fee payouts from the qualified custodians based on the fee statements' valuation (which value is exactly equivalent to the custodians' appraisals) how does a surprise audit augment this already duplicative and protective disclosure?

3. The cost associated with an annual surprise audit would cause a financial strain on our company, the cost of which will be passed on to our clients in the form of higher advisory fees, which is not in the best interests of our clients.

4. In the event we were unable to absorb and/or pass on the costs associated with an annual surprise audit, we may be forced to eliminate the direct debit of fees and instead require clients to pay our advisory fees directly. This would require a complete revamping of operations and would increase overhead costs. More importantly, in many cases, such a change in billing practices would confuse clients and require them to reorganize their banking arrangements, making more work for our clients. Does that really enhance investor protection? We think not.

5. Our fees are truly a cost of capital maintenance, and hopefully enhancement. Direct debit allows clients to see the effect of fees as a direct cost related to that capital. Further to #4 above, fee payment from another source, possibly from the daily operating cash of the client, can distort the cost of our services when it is important to transparently show the true cost and effect of our advisory efforts.

6. If our costs of direct debit become prohibitive due to significant surprise accounting costs, the unpalatable resort to fee-payment-by-check will most probably result in arrearages. Our firm currently sends bills to certain retirement and corporate plan clients (who may pay our bill from corporate cash sources for a tax-deductible offset against corporate income) and we have seen sporadic 30-60 day arrearages, and, in some cases, up to 90-120 days. Since our expense obligations continue month-to-month we can not accept a generalized alternative billing method which places our receivables at risk for delayed payment, necessitating possible collections procedures at worst, and embarrassing reminders to the clients at the very least.

7. Why place independent Investment Advisers in an inferior position to that of mutual funds? Investment Companies may currently calculate or deduct fees with extreme frequency, due to the need to calculate fee accruals in order to arrive at Net Asset Value (NAV). The Funds may also deduct more varied fees than individual advisers may currently deduct, e.g. administrative, custodial and 12(b)-1 fees. Will Investment Companies also be required to endure the possibility of a surprise audit? Fairness and equal treatment would indicate that neither Funds nor Advisers be subject to this audit obligation.

8. Some retirement arrangements, particularly IRAs, allow advisory fees when directly debited to be non-taxable distributions. Faced with the fact that investment fees have limited federal tax deductibility for an individual client when paid by the client from non-IRA sources, most clients opt for direct debit. Must we as Advisers

endure surprise audits merely due to this tax-oriented debiting which most definitely inures to the clients' benefit?

As a small business owner, I am responsible not only for my economic livelihood, but that of my employees. Surprise audit costs will inhibit future growth and hiring. Why in a recessionary environment where our industry has been so burdened, should additional costs be levied upon us which will undoubtedly restrict us from future hiring? The surprise audit requirement will not only <u>not</u> enhance investor protection, but in our estimation decrease our capacity to afford quality financial service to our clients. We believe that this proposed rule can hurt, not help, clients derivatively. Its apparent nobility of purpose will have negative unintended consequences on our capability to service client needs in a difficult economic time. Our firm's revenues have plummeted since 2008 and we are hard-pressed to absorb new costs which have a speculative role in our delivery of investment advice and counsel.

Given that existing safeguards in place are adequate and considering the adverse effects of a mandatory surprise audit on advisers as well as clients, we respectfully request that the Commission leave current Rule 206(4)-2 intact and unchanged with respect to advisers who have custody solely because they have the authority to deduct advisory fees from client accounts. We thank the Commission for the opportunity to comment on this matter.

Respectfully,

Michael C. Provine, J.D., LL.M.
Member and Chief Compliance Officer
Tradition Capital Management, LLC
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