Regarding File #S7-09-09

Compliance Advisory Services, Inc. appreciates the opportunity to express its views in response to the Securities and Exchange Commission's ("Commission") request for comments on the proposed amendments to Rule 206(4)-2.

We formally object the Commission's proposed amendments to the custody rule requiring investment advisers who are deemed to have custody solely as a result of withdrawing advisory fees from clients' accounts to be subject to surprise examinations by a non-affiliated independent accounting firm. If the Commission's proposal is adopted as proposed, we believe it will result in burdensome compliance requirements and cause a financial strain for those investment advisers who only have custody as a result of withdrawing their fees from clients' accounts maintained at qualified custodians. Furthermore, as with any increase in cost the end result is typically that the burden is ultimately borne by the customer. Consequently, the investment adviser's client would more than likely see an increase in fees as a result of the additional requirements being place on the investment advisers.

While the Commission's concerns regarding the misappropriation of clients' funds by investment advisers with custody are valid there may be other ways to offer some protections while reducing the amount of cost and burden to investment advisers. For example, requiring investment advisers to send fee notifications to clients prior to an investment adviser withdrawing their fees from clients' accounts may better assist the clients to understand how fees are calculated and the amount to be withdrawn from their account.

We agree with the Commission's suggestion to require investment advisers to adopt compliance policies and procedures administered by the chief compliance officer and to require the chief compliance officer to submit a certification that all client assets are properly protected and accounted for on behalf of clients. Further, we agree the Commission should provide a minimum set of guidelines for the procedures the chief compliance office should implement. Providing guidelines assists an investment adviser to better understand the expectations of the Commission rather than communicating those expectations during an examination or other regulatory actions.

Despite opposition to the proposal, should the Commission move forward with the proposal to require the independent accountant to notify the Commission of finding a material discrepancy it is absolutely necessary to define what is meant by "material discrepancy." The assumption that everyone will agree and have the same understanding of what is meant by "material discrepancy" is an unsafe assumption. It will be necessary to provide definition and guidance. With respect to the provision of the accountant's certificate being provided to clients or investors, we see no valid reason to require another distribution of paper to clients. Further, the provision of the certification would not serve any useful purpose. However, if the Commission deems it necessary, it is suggested disclosure advising clients the certificate is available upon written request be permitted in another communication to the client or provided in the Form ADV.

The Commission requested comment as to whether or not the requirement of using a PCAOB registered and inspected independent public accountant would increase the costs to obtain the examination or make it difficult for an investment adviser to obtain a qualified accounting firm. We believe such a requirement would become extremely burdensome financially and from an availability standpoint. We believe accounting firms that are PCAOB registered and inspected would potentially take advantage of the situation and substantially increase their fees for such an audit. Thus, the cost could cause some investment advisers to potentially need to cease certain services offered to clients and put them at a disadvantage among competitors who are better able to bear the costs of an audit. Furthermore, we are again concerned that such costs would only be passed down to the client since investment advisers may

need to raise their fees to cover the additional cost. An additional concern is investment advisers are not only located in large cities. Consequently, there may be limitations for certain investment advisers to locate a qualified accounting firm locally without also bearing travel costs. We agree that such a requirement would disproportionately impact small accounting firms and small investment advisers.

We agree with the Commission's proposal to eliminate the alternative delivery option of statements by investment advisers who undergo a surprise examination by an independent accounting firm at least annually. Furthermore, we agree that direct delivery by the account custodian will provide greater assurance of the integrity of account statements.

We agree with the Commission's proposal to require investment advisers to include a statement in a notice sent to clients upon opening a custodial account on behalf of clients and urging clients to compare the account statement they receive from the custodian with any statement received from the investment adviser. However, we request the Commission to clarify whether notice is required to be provided by investment advisers who obtain the client's signature on the custodian's account opening paperwork prior to opening account. Therefore, the client is made aware of the identity of the account custodian prior to an account being opened and funds and securities being deposited. We do agree with the proposal to require investment advisers who elect to send account statements to client to include a legend urging clients to compare the information the investment adviser sends to clients with the information reflected on the qualified custodian's account statements. We disagree with the proposal to require all investment advisers with custody to create and deliver account statements to clients. To enforce this requirement could be financially burdensome both from a staffing and software perspective. Not all investment advisers have the capability to produce reports to clients. Consequently, the proposed requirement for investment adviser to produce statements could be more damaging.

The Commission proposed amendments to the Form ADV. One of the amendments proposed is to Item 9 of Part 1A which would result in investment advisers reporting the value of client assets and the number of clients for which the investment adviser or its related persons have custody. Further, the amendments would require identification of whether the investment adviser or its related persons serve as a qualified custodian with respect to s clients' funds or securities. We believe the amendment would only be necessary and productive to require those investment advisers who are qualified custodians to respond to such a question. If the majority of registered investment advisers only have custody as a result of withdrawing their fees from client accounts it would reasonable that the assets reported under Item 5 would be reflective of the value. Thus, to require all investment advisers to complete the question would seem duplicative.

We are concerned about the Commission's proposal to essentially make the investment adviser responsible for the independent public accountant to file Form ADV-E accompanied by a certificate within 120-days of the time chosen by the accountant for the surprise examination. Since the accounting firm is independent, the investment adviser would have no control to cause the accounting firm to meet the deadline. Further, we do not see where the majority of clients would benefit from the electronic filing of Form ADV-E since it is unlikely many clients would access the information.

Thank you for the opportunity to submit comment.

Sincerely,

Dawn Bond
Compliance Advisory Services, Inc.