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Via Electronic Mail

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

RE: SEC Release No. IA-2876; File No. S7-09-09
Custody of Funds or Securities if Clients by Investment Advisers

Dear Ms Murphy:

Grandfield & Dodd, LLC ("G&D") appreciates the opportunity to comment on the above-referenced proposed rule by the Securities and Exchange Commission (the "SEC") under the Investment Advisers Act of 1940. We support the SEC's efforts to protect investors' assets from being lost, misused or misappropriated by their investment advisers. However, we have serious reservations about the proposed surprise audit requirement for advisers maintaining client assets at independent, qualified custodians that regularly send account statements directly to these clients. We believe that the potential benefit provided by the surprise audit requirement in this context is very limited and does not justify the associated costs to our clients or our firm.

Before providing our rationale for objecting to the surprise audit, you may find some background information about our firm helpful. G&D is a registered investment adviser serving primarily high-net worth individuals with approximately $590 million assets under management as of December 31, 2008. Based on current rules, G&D is deemed to have custody of client assets either by having the ability to deduct advisory fees or by having a member of the firm serve as a co-trustee of a trust client. Regardless, wherever G&D has custody of client assets, these assets are held by independent, qualified custodians that regularly provide account statements directly to our clients (including trust beneficiaries) on at least a quarterly basis and most commonly on a monthly basis.

For the following reasons, we ask the SEC to reconsider the surprise audit requirement under the proposed rule as applied to client assets held by independent, qualified custodians:

We believe that the additional protection provided by a surprise audit is likely to be very limited. The use of independent, qualified custodians to hold client assets effectively safeguards these assets from misappropriation or fraud. Clients (and trust beneficiaries) are readily able to monitor and independently verify all holdings and activities in accounts where G&D has potential access to their assets. Where G&D accesses client funds through our ability to deduct fees, we instruct client custodians who provide an "additional set of eyes" reviewing these regular quarterly payments. Where a G&D person acts as a trustee on a trust, he/she is an agent of the trust, governed by trust law, and answerable to the beneficiaries of the trust.

A surprise audit requirement discourages G&D from providing beneficial services to our clients. G&D maintains custody of clients (as defined by the custody rule) for the sole purpose of providing better service to our clients. G&D deducts advisory fees directly from client accounts at the behest of those clients who find this method of payment most convenient. G&D persons serve as trustees on trusts for clients with whom they have a long-standing relationship. If the proposed audit requirement is adopted, G&D will be discouraged from providing these valued services to our clients.

The cost associated with an annual surprise audit is not insignificant, particularly for a firm our size. Although the SEC has estimated that the cost of a surprise audit would be $8,100, we believe this estimate may be too low, as it is substantially the same as a previous SEC estimate made in 2002. Furthermore, this estimate does not consider the impact and potential disruption to the business of a firm of our size (G&D has four principals and four employees, of which only two hold purely administrative roles). We do our best to maintain a competitive advisory fee structure that provides a compelling value proposition for our clients, but if the regulatory costs of providing these value-added services increase materially, we may be compelled to pass these costs along to our clients.

In conclusion, we are opposed to the SEC's proposed surprise audit requirement for advisers maintaining client assets at independent, qualified custodians yet deemed to have custody under the SEC definition. In our opinion, this proposed rule creates a material administrative and economic burden on our clients and firm that outweighs the likely benefit or added protection of such a requirement. As alternatives to the proposed rule, we support the proposals forwarded by the Investment Adviser Association in its letter to the SEC dated July 24, 2009, commenting on the same rule. In particular, we support the alternate rule suggestions for advisers that have custody of client assets because of their fee deduction ability and role as trustee on client trusts.

On behalf of our firm, I thank the SEC for the opportunity to comment on the proposed rule. If you have any questions regarding our firm's comments, I can be reached at (212) 477-9626 x14.

Respectfully yours,

Tae-Gene K. Cho
Principal & Chief Compliance Officer