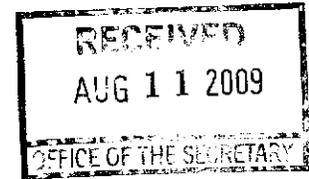


## Karpus Investment Management



July 28, 2009

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

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

Dear Ms. Murphy:

Karpus Management, Inc, (d/b/a Karpus Investment Management) (KMI) is a fee based registered investment advisor since 1986 located in Pittsford, New York with approximately \$1.6 billion of assets under management. KMI is writing to the Commission about the economic and labor impact of the proposed rules, in particular the surprise audit requirement on RIA's by reason of deeming any advisor that has fees deducted from a custodial account in effect has custody of the assets.

The proposed amendments contain an assault on RIA's of our size. I employ the word assault because of the additional costs that will be forced upon our firm.

- 1) All RIA's deemed to have custody of client assets or securities must undergo an annual surprise examination by an independent public accountant with proper certifications to verify client funds and securities. (The definition of custody applies to the RIA's ability to deduct its' fees from each clients account).
- 2) RIA's whose clients' funds and securities with a qualified custodian must obtain an annual written SAS 70 from an independent public accounting firm that includes an opinion regarding the custodians' internal controls.
- 3) The RIA deemed to have custody of clients' assets or securities must possess a reasonable belief that the qualified custodian delivers to the RIA's clients a minimum of a quarterly statement.

KMI has issue with the first of the proposed rules whereas the second and third are easily complied with by any firm that utilizes a "recognizable financial institution" as custodian.

The annual surprise audit proposal is a hardship on any firm of our size for the disruption of business activities, internal costs in terms of personnel that will be associated with the audit, along with the additional costs of employing an appropriately certified independent public accountant. It is our belief that the Commission has severely underestimated the costs involved with a surprise audit both internally and externally.

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The majority of the clients of KMI are with one central custodial bank or a custodian chosen by the client and all custodians are recognizable financial institutions. It is the duty of the custodian to safe-keep the client's assets in a segregated account titled in the client's name. Our client's accounts are automatically reconciled on a daily basis using **Advent software** and all discrepancies are immediately resolved. RIA's who only have "custody" based on direct debiting of fees should be exempt from this regulation. Simply because our clients authorize us to deduct from their account our quarterly fees does not mean that we have true custody.

KMI informs clients of the calculations for their fees on a quarterly basis, as the norm, with a **fee calculation** mailed to each client. Any questions that a client may have on the calculations can be expressed to KMI and any disputes are resolved in a timely manner. Furthermore our clients receive a custodial statement on a quarterly basis, with some accounts requesting a monthly custodial statement. The client can then verify on the statement that KMI's calculated fee has been deducted from their account. KMI also allows clients to have the option of billing on a quarterly basis for our services, should the client not wish to have fee's directly debited from their account. This practice is fully disclosed to our clients in our discretionary asset management agreement and is accepted by the client upon execution.

KMI believes that simply deducting fees from a client's account should not substantiate having direct or indirect custody of client's assets. The custodial organization is responsible for the safekeeping of client assets and should have established policies and procedures to protect client assets. This is substantiated by an independent public accounting firm through the SAS 70. This report could be easily sent to all clients of the custodian along with their quarterly statement and would fulfill the second point of the proposal.

The third prong of the proposal is simply fulfilled by instituting mandatory quarterly custodial statements.

Additional auditing takes away from the main focus of an RIA which is to make proper investments for its' clients

KMI understands the Commission's concern about recent events, such as Ponzi schemes, that have financially destroyed many individuals. However, KMI believes that the misdeeds of some should not taint the whole industry. Instead increase the amount of field auditors and direct the efforts towards firms that have been in question in the past or show a culture of being non-conformant to policies and procedures in previous audits.

KMI understands the Commission's intention of safeguarding client accounts were there is indeed "self-custody" of client assets. Simply deducting management fees from a client's account should not thrust a RIA into having custody of client assets. Far less intrusive and expensive methods can be used to ensure client safety.

Sincerely,



Sharon L. Thornton

Senior Director of Investments