

**INVESTMENT COMPANY INSTITUTE**

**Financial Intermediary Controls and  
Compliance Assessment**

**November 2008**



**Investment Company Institute  
Financial Intermediary Controls and Compliance Assessment**

**Overview and Objective**

The Financial Intermediaries Controls and Compliance Assessment matrix (the "Assessment Matrix") hereunder is intended to provide guidance to Financial Intermediaries, and users of Financial Intermediaries, when performing assessments of control environments. These terms are defined in the Assessment Matrix as follows:

- Company - refers to the Financial Intermediary organization; and,
- Client - refers to the user organization of the Financial Intermediary (typically the Fund Complex).

**Assessment Matrix Definitions**

The Assessment Matrix is organized in a table, and heading definitions are as follows:

Area of Focus	Reporting Mechanism			Priority	Sample Control Objective	Points to Consider
	SAS 70 Report	Compliance Report	Other sources (e.g. Financial Statements)			
Description of the area of focus.	<p>The method used to describe the control environment and results of any testing performed. Options include reports prepared pursuant to; Statement on Auditing Standards No. 70 ("SAS 70"); Statement of Position 07-2 Attestation Engagements That Address Specified Compliance Control Objectives and Related Controls at Entities That Provide Services to Investment Companies, Investment Advisers, or Other Service Providers ("Compliance Report"); or material provided by the Company ("Other sources (e.g. Financial Statements)").</p> <p><i>Note: Not all categories may apply to each intermediary organization. For example, entities that are not regulated by the SEC, FINRA, or a federal banking regulator may not be subject to a Code of Ethics requirement.</i></p>			Users expected frequency of inclusion of the area of focus in a report.	Sample control objective for the SAS 70 or Compliance Report.	Suggested points for consideration when describing the procedures and controls for areas of focus. This listing is intended as a summary of many of the principal inquiries of users of Company services and should be tailored based on actual Company operations (it is not intended to be comprehensive listing of all relevant factors that may exist in each control environment or arrangement).

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<b>Company Background and Financial Results</b>						
1) Financial viability			✓	Biennial	<ul style="list-style-type: none"> <li>▪ Not applicable - this information will not be contained in a SAS #70 or Compliance Report.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Provide most current audited financial statements.</li> </ul>
2) Management Reporting (Quality Control)			✓	Biennial	<ul style="list-style-type: none"> <li>▪ Not applicable - this information will not be contained in a SAS #70 or Compliance Report.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Describe the tools that are utilized by management to ensure quality and allow management to "review" the organization</li> <li>▪ Describe the metrics available to support the quality assurance processes, examples include:               <ul style="list-style-type: none"> <li>✓ Transaction volumes</li> <li>✓ Quality</li> <li>✓ Phone call response times</li> <li>✓ Backlog reporting</li> <li>✓ Complaint log process</li> </ul> </li> <li>▪ Describe how frequently the metrics are produced and how they are used by management.</li> <li>▪ Describe the methodology used by management to obtain comfort regarding the accuracy of the metrics (e.g. various types of testing employed).</li> </ul>

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<b>Company Level Controls or Processes</b>						
3) Risk Management	✓		✓	Biennial	<ul style="list-style-type: none"> <li>▪ Not applicable - a narrative description of the risk management is typically included in Section II of a SAS #70 report. Such a description was not contemplated in the compliance Report - however, management may wish to provide such a description under separate cover.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Describe the following:               <ul style="list-style-type: none"> <li>✓ Overview of the Company</li> <li>✓ Identification of key business processes</li> <li>✓ Management oversight and controls</li> <li>✓ Responsibilities for risk management and internal control</li> <li>✓ Legal and compliance responsibilities</li> <li>✓ Information technology</li> <li>✓ Utilization of sub-service organizations; and,</li> <li>✓ Other considerations for users of the report (e.g. control activities that should be present at user organizations).</li> </ul> </li> <li>▪ Other considerations include a description of the Company's:               <ul style="list-style-type: none"> <li>✓ Risk assessment process;</li> <li>✓ Documentation of the risk assessment process; and,</li> <li>✓ Senior management and/or Board review and approval.</li> </ul> </li> </ul>

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4) Third-party Oversight	✓		✓	Biennial	<ul style="list-style-type: none"> <li>▪ Not applicable - a narrative description of third-party oversight is typically included in Section II of a SAS #70 report. Such a description was not contemplated in the compliance Report - however, management may wish to provide such a description under separate cover.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Describe the following:               <ul style="list-style-type: none"> <li>✓ Whether or not the Company uses sub-service providers or subcontractors;</li> <li>✓ The primary partners or subcontractors?</li> <li>✓ Location - onsite - off-site - Offshore;</li> <li>✓ Employee background checks;</li> <li>✓ Compliance awareness training;</li> <li>✓ Assessment process for sub-service providers or subcontractors business continuity/disaster recovery plans;</li> <li>✓ The Company's policy/practice related to subcontractors:                   <ul style="list-style-type: none"> <li>○ How long has this been a practice;</li> <li>○ Communication protocols;</li> <li>○ Under what conditions subcontractors are used; and,</li> <li>○ How subcontractors are trained and held to the Company's standards (e.g. privacy protection).</li> </ul> </li> <li>✓ Whether the subcontractor has a SAS #70 or other form of external oversight report. If not, how the company gains comfort with the subcontractors control environment.</li> </ul> </li> </ul>

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5) Code of Ethics		✓		Biennial	<ul style="list-style-type: none"> <li>▪ Controls provide reasonable assurance that the Company's Code of Ethics has been:               <ul style="list-style-type: none"> <li>✓ Formally documented;</li> <li>✓ Approved by the Board (or other appropriate governing body);</li> <li>✓ Communicated to, and acknowledged by, employees in a timely manner;</li> <li>✓ Monitored by the compliance department (or other similar internal organization); and,</li> <li>✓ Exceptions are identified, researched, reported, and their resolution is documented in a timely manner.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ The Company should have a Code of Ethics that contains provisions in accordance with applicable regulatory requirements - for example;               <ul style="list-style-type: none"> <li>✓ Personal trading/transactions by "covered" employees;</li> <li>✓ Safeguarding customer information;</li> <li>✓ Insider trading; and,</li> <li>✓ Other conflicts of interest.</li> </ul> </li> <li>▪ Control descriptions should address the process for:               <ul style="list-style-type: none"> <li>✓ Determination of applicable laws and regulations;</li> <li>✓ Board review and approval;</li> <li>✓ How the code is communicated to employees (e.g. electronically, hard copy etc);</li> <li>✓ Acknowledgement for new and existing employees;</li> <li>✓ Exception resolution; and,</li> <li>✓ Compliance monitoring by management.</li> </ul> </li> </ul>

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6) Privacy Protection		✓		Biennial	<ul style="list-style-type: none"> <li>▪ Controls provide reasonable assurance that material non-public information is restricted to the authorized individuals communicated to the Company by the client.</li> </ul>	<ul style="list-style-type: none"> <li>▪ The Company should have a privacy policy that contains provisions in accordance with applicable regulatory requirements - for example:               <ul style="list-style-type: none"> <li>✓ Definition of proprietary or confidential information;</li> <li>✓ Interagency Guidelines issued by the federal banking regulators under the Gramm-Leach-Bliley Act ("GLBA") - for example, the formal response program for incidents of unauthorized access to, or use of, customer information;</li> <li>✓ Company's approach to privacy as it relates to their operations;</li> <li>✓ Laptop or portable device security - (note that this may be covered in the Information Technology sections with respect to physical security); and,</li> <li>✓ Impact on, and applicability to, Third-parties (sub-contractors).</li> </ul> </li> </ul>

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6) Privacy Protection, cont		✓		Biennial	<ul style="list-style-type: none"> <li>▪ Controls provide reasonable assurance that material non-public information is restricted to the authorized individuals communicated to the Company by the client.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Control descriptions should address the process for:               <ul style="list-style-type: none"> <li>✓ Determination of applicable laws and regulations;</li> <li>✓ Board review and approval;</li> <li>✓ How the policy is communicated to employees (e.g. electronically, hard copy etc);</li> <li>✓ Employee awareness and/or training;</li> <li>✓ Issue resolution;</li> <li>✓ Compliance monitoring and/or testing by management; and,</li> <li>✓ Notifying appropriate persons (consumers, the fund, etc.) in the event of a breach or other unauthorized access to non-public personal information.</li> </ul> </li> </ul>

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7) Anti-Money Laundering		✓		Biennial	<ul style="list-style-type: none"> <li>▪ Controls provide reasonable assurance that:               <ul style="list-style-type: none"> <li>✓ Information is collected from any person seeking to open an account with a mutual fund client to verify such person and the information collected is maintained;</li> <li>✓ New account and registration maintenance transactions are compared to the Office of Foreign Asset Control ("OFAC") database; and exceptions are identified, researched, escalated, and appropriate action is taken in a timely manner;</li> <li>✓ The recordkeeping system is coded to systematically identify potential suspicious activity, and identified activity is researched, escalated, and appropriate action taken; and,</li> <li>✓ Activity deemed suspicious is reported to the U.S. Department of Treasury, via a Suspicious Activity Report ("SAR"), within the required timeframe.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ The Company should have an anti-Money Laundering (AML) policy that contains provisions in accordance with applicable regulatory requirements - for example:               <ul style="list-style-type: none"> <li>✓ Designation of an AML officer;</li> <li>✓ Company's approach to AML as it relates to their operations;</li> <li>✓ AML training program;</li> <li>✓ SAR filing process; and,</li> <li>✓ Impact on, and applicability to, Third-parties (sub-contractors).</li> </ul> </li> <li>▪ Control descriptions should address the process for:               <ul style="list-style-type: none"> <li>✓ Determination of applicable laws and regulations;</li> <li>✓ Board review and approval;</li> <li>✓ How the policy is communicated to employees (e.g. electronically, hard copy etc);</li> <li>✓ Employee awareness and/or training;</li> <li>✓ New account and registration maintenance;</li> <li>✓ SAR filing;</li> <li>✓ Exception resolution; and,</li> <li>✓ Compliance monitoring and/or testing by management or another party independent of management.</li> </ul> </li> </ul>

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8) Document Retention and Record Keeping		✓		Biennial	<ul style="list-style-type: none"> <li>▪ Controls provide reasonable assurance that the Company's Document Retention and Record-keeping guidelines have been:               <ul style="list-style-type: none"> <li>✓ Formally documented;</li> <li>✓ Approved by the Board (or other appropriate governing body);</li> <li>✓ Communicated to employees in a timely manner; and,</li> <li>✓ Monitored by the compliance department (or other similar internal organization).</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ The Company should have a Document Retention and Record-keeping policy that contains provisions in accordance with applicable regulatory requirements - for example:               <ul style="list-style-type: none"> <li>✓ Time periods for retention of documents;</li> <li>✓ Document destruction protocols;</li> <li>✓ Tracking of changes to documents and the prevention of unintended alterations to records; and,</li> <li>✓ Provisions to put a "hold" on the records.</li> </ul> </li> <li>▪ Control descriptions should address the process for:               <ul style="list-style-type: none"> <li>✓ How historical accounting records (since inception) are retained;</li> <li>✓ Document destruction practices;</li> <li>✓ Tracking of changes to documents and the prevention of unintended alterations to records;</li> <li>✓ The location of records - image system, microfilm, boxes, etc.; and</li> <li>✓ Subcontractor compliance.</li> </ul> </li> </ul>

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<b>Operations</b>						
9) Beneficial Owner Account (Fund Complex) Setup and Maintenance	✓	✓		Annual	<ul style="list-style-type: none"> <li>▪ Controls provide reasonable assurance that beneficial owner accounts have been:               <ul style="list-style-type: none"> <li>✓ Accepted and established accurately and completely in conformity with the specified terms or provisions contained in mutual fund prospectuses and statements of additional information or other governing documents;</li> <li>✓ Reflected in the application system(s) in a complete and accurate manner;</li> <li>✓ Changed based upon instructions from an authorized party, and the application system(s) has been updated completely, accurately and timely to reflect such changes; and,</li> <li>✓ Monitored by Company management for compliance with the specified terms or provisions contained in mutual fund prospectuses and statements of additional information or other governing documents.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Control descriptions should address the process for:               <ul style="list-style-type: none"> <li>✓ Coordination of account openings, including gathering relevant information to determine that application is "in good order";</li> <li>✓ Communication protocols between the Client (Fund Complex) and the Company, including:                   <ul style="list-style-type: none"> <li>○ New products and/or prospectuses;</li> <li>○ Product and/or prospectus updates; and,</li> <li>○ Involvement of Client (Fund Complex) management on those matters that require judgment (exceptions and/or overrides).</li> </ul> </li> <li>✓ Application system capabilities manual or automated processing - examples include, but are not limited to:                   <ul style="list-style-type: none"> <li>○ Breakpoints;</li> <li>○ Class conversions;</li> <li>○ Purchase minimums and maximums; and,</li> <li>○ Account aggregation techniques.</li> </ul> </li> </ul> </li> </ul>

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10) Transaction Processing	✓	✓		Annual	<ul style="list-style-type: none"> <li>▪ Controls provide reasonable assurance that:               <ul style="list-style-type: none"> <li>✓ Specified transactions and adjustments, including as-of transactions, are authorized, processed accurately and timely, and are effected at the proper share price;</li> <li>✓ Specified transactions meet guidelines contained in mutual fund prospectuses and statements of additional information governing shareholder transactions; and,</li> <li>✓ Dividends and capital gain distributions are recorded and paid or reinvested, based on authorized amounts, in an accurate and timely manner.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Control descriptions should address the process for:               <ul style="list-style-type: none"> <li>✓ Transactions occurring in all distribution channels (e.g. phone, fax, internet, mail);</li> <li>✓ Mid-month account close-out (how investor accounts are credited with dividends);</li> <li>✓ Recording transactions in accordance with prospectus guidelines (including exception identification, escalation and resolution). Examples include, but are not limited to:                   <ul style="list-style-type: none"> <li>○ Minimum and maximum amounts;</li> <li>○ Market hours; and,</li> <li>○ Market timing (purchases and sales).</li> </ul> </li> <li>✓ Holidays or other calendar anomalies - for any funds that declare dividends daily and pay monthly, how are rates quoted for non-business days (i.e. holidays and weekends?); and</li> <li>✓ All types of dividends.</li> </ul> </li> </ul>

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11) Cash and Share Reconciliations	✓	✓		Annual	<ul style="list-style-type: none"> <li>▪ Controls provide reasonable assurance that bank accounts are reconciled and exceptions are identified, researched and resolved in a timely manner.</li> <li>▪ Controls provide reasonable assurance that beneficial owner accounts are reconciled to omnibus positions and exceptions are identified, researched and resolved in a timely manner.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Control descriptions should address the process for:               <ul style="list-style-type: none"> <li>✓ Daily reconciliation;                   <ul style="list-style-type: none"> <li>○ Cash accounts (DDA's); and</li> <li>○ Beneficial owner share positions.</li> </ul> </li> <li>✓ Guidelines (materiality levels) for exception identification; and,</li> <li>✓ Monitoring by management.</li> </ul> </li> </ul>
12) Escheatment		✓		Biennial	<ul style="list-style-type: none"> <li>▪ Controls provide reasonable assurance that:               <ul style="list-style-type: none"> <li>✓ Returned shareholder mail is tracked; "lost shareholders" are identified on the system; and search criteria is established so that lost shareholders are researched in accordance with the required timeframes; and,</li> <li>✓ Shareholder accounts (including dividend / redemption checks) are escheated to the appropriate state in a timely manner.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Control descriptions should address the process for:               <ul style="list-style-type: none"> <li>✓ Returned mail;</li> <li>✓ Identification of lost shareholders;</li> <li>✓ Various types of accounts (e.g. retail, institutional etc); and,</li> <li>✓ Management monitoring.</li> </ul> </li> </ul>

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13) Shareholder Communications		✓		Biennial	<ul style="list-style-type: none"> <li>▪ Controls provide reasonable assurance that shareholder communications are prepared in accordance with underlying books and records and are produced in a complete, accurate and timely manner.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Control descriptions should address the process for:               <ul style="list-style-type: none"> <li>✓ Delivery - how materials get shipped or communicated (including electronically);</li> <li>✓ Various forms - e.g.;                   <ul style="list-style-type: none"> <li>○ Tax forms (including 1099's); and,</li> <li>○ Prospectuses and reports.</li> </ul> </li> <li>✓ Web access;                   <ul style="list-style-type: none"> <li>○ Functionality is offered to clients, retirement plans, etc on the website;</li> <li>○ Functionality is available for products; and,</li> <li>○ Website content is current, accurate, and compliant with regulatory requirements.</li> </ul> </li> <li>✓ Voice Response System functionality (offered to clients, plans, etc);</li> <li>✓ Source of any benchmark or external data included in client reports;</li> <li>✓ Comparing and agreeing the content of client reports with the underlying books and records; and</li> <li>✓ Management monitoring.</li> </ul> </li> </ul>

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14) Sub-Account Billing, Invoice Processing	✓	✓		Annual	<ul style="list-style-type: none"> <li>▪ Controls provide reasonable assurance that amounts billed for shareholder servicing from financial intermediaries have been calculated and applied in accordance with the procedures communicated to the Company from the client.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Control descriptions should address the process for:               <ul style="list-style-type: none"> <li>✓ Verification of fee amounts;</li> <li>✓ Comparing and agreeing information to the underlying books and records;</li> <li>✓ Production and distribution of invoices; and,</li> <li>✓ Management monitoring.</li> </ul> </li> </ul>

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15) Fee Calculations	✓	✓		Annual	<ul style="list-style-type: none"> <li>▪ Controls provide reasonable assurance that:               <ul style="list-style-type: none"> <li>✓ Initial sales charges have been calculated and applied in accordance with mutual fund prospectus and statement of additional information guidelines;</li> <li>✓ Contingent deferred sales charges (CDSC) have been calculated and applied in accordance with mutual fund prospectus and statement of additional information guidelines;</li> <li>✓ Rule 12b-1 fee schedules are maintained in accordance with mutual fund prospectus and statement of additional information guidelines and,</li> <li>✓ Redemption fees have been calculated and applied in accordance with mutual fund prospectus and statement of additional information guidelines.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Control descriptions should address the process for:               <ul style="list-style-type: none"> <li>✓ Capturing all fee types from the prospectus or other selling document (e.g., taking into account class of shares, rights of accumulation, letters of intent, account aggregation, concurrent purchases, waivers, “free shares”, share aging, lot tracking, reinvested shares, etc.);</li> <li>✓ Verification of fee amounts;</li> <li>✓ Comparing and agreeing information to the underlying books and records;</li> <li>✓ Grouping (i.e. asset based, account based etc) of fee types, if applicable;</li> <li>✓ Production and distribution of invoices; and,</li> <li>✓ Management monitoring.</li> </ul> </li> </ul>

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<b>Information Technology</b>						
16) Information Technology (including internet and VRU)	✓	✓		Biennial	<ul style="list-style-type: none"> <li>▪ Controls provide reasonable assurance that:               <ul style="list-style-type: none"> <li>✓ New applications being developed are authorized, tested, approved, properly implemented, and documented;</li> <li>✓ Changes to existing applications being developed are authorized, tested, approved, properly implemented, and documented;</li> <li>✓ Changes to the existing system software and implementation of new system software are authorized, tested, approved, properly implemented, and documented;</li> <li>✓ Physical access to computer equipment, storage media, and program documentation is restricted to properly authorized individuals;</li> <li>✓ Logical access to system resources is restricted to properly authorized individuals;</li> <li>✓ Processing is appropriately authorized and scheduled and deviations from scheduled processing are identified and resolved;</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Control descriptions should address the process for:               <ul style="list-style-type: none"> <li>✓ Application changes - including management oversight;</li> <li>✓ Downloads of data and interfaces with external parties;</li> <li>✓ Connectivity (e.g. are dedicated lines established for certain clients);</li> <li>✓ Third-party providers the Company uses to provide Information Technology services;</li> <li>✓ Network security;</li> <li>✓ Virus protection/propagation procedures;</li> <li>✓ Portable devices;</li> <li>✓ Physical security                   <ul style="list-style-type: none"> <li>○ Security infrastructure.</li> <li>○ Entry point access (manual or electronic); and,</li> <li>○ Access restrictions within various facilities.</li> </ul> </li> </ul> </li> </ul>

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16) Information Technology (including internet and VRU), continued	✓	✓		Biennial	<ul style="list-style-type: none"> <li>✓ Data transmissions are complete and accurate; and,</li> <li>✓ Production software and data files are backed up regularly, backups are maintained offsite, and procedures are in place to recover from processing interruptions.</li> </ul>	

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17) Business Continuity / Disaster Recovery		✓		Biennial	<ul style="list-style-type: none"> <li>▪ Controls provide reasonable assurance that business continuity and disaster recovery plans have been:               <ul style="list-style-type: none"> <li>✓ Formally documented;</li> <li>✓ Approved by the Board (or other appropriate governing body);</li> <li>✓ Communicated to employees in a timely manner;</li> <li>✓ Implemented and maintained; and,                   <ul style="list-style-type: none"> <li>○ Data and systems are backed up regularly and retained offsite;</li> <li>○ Information Technology hardware and software issues are monitored and resolved in a timely manner.</li> </ul> </li> <li>✓ Tested, including testing for data and systems recoverability.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ The Company should have business continuity and disaster recovery plan(s) that contain provisions in accordance with applicable regulatory requirements. The plan(s) and controls descriptions should address:               <ul style="list-style-type: none"> <li>✓ The scenarios contemplated in the plan(s) and other general provisions;</li> <li>✓ Testing plan(s) - including timetables (e.g. annual, semi-annual);</li> <li>✓ Capabilities (i.e. "hot" site or "cold" site) and proximity of offsite locations;</li> <li>✓ Training plan(s);</li> <li>✓ Expected recovery timeframe for key systems and/or processes;</li> <li>✓ Communicating with outside parties (e.g. fund management) in the event of an emergency;</li> <li>✓ Power backup; and,</li> <li>✓ Other considerations associated with:                   <ul style="list-style-type: none"> <li>○ Systems;</li> <li>○ People;</li> <li>○ Facilities; and,</li> <li>○ Various interruption scenarios - scenarios should contemplate items ranging from gas leaks and natural disasters to loss of key personnel etc.).</li> </ul> </li> </ul> </li> </ul>