

Financial Intermediary Controls and Compliance Assessment Engagements

2014

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I. Introduction

Financial intermediary relationships are complicated arrangements, demanding significant commitment from fund complexes for management and oversight. As regulatory initiatives continue to create new or expanded regulatory compliance requirements, and because many intermediaries have moved away from holding individual broker controlled accounts on the books of fund companies in favor of aggregated “omnibus” accounts,¹ mutual fund complexes are challenging and continuing to enhance their oversight procedures to ensure that intermediaries are meeting their obligations.

Intermediary Oversight

Given the financial intermediary’s direct control over and knowledge of its customers’ fund positions, mutual fund oversight often includes monitoring certain intermediary activities to ensure adherence to mutual fund regulations, contractual obligations, and compliance with the terms of fund prospectuses and statements of additional information (SAIs).

Many fund sponsors have deployed policies and procedures to review the adequacy and effectiveness of an intermediary’s compliance controls, which may include onsite examinations, certifications, receipt of transparency data, review of analytics, and questionnaires. However, some of these methods can be duplicative and inefficient for intermediaries that have agreements with multiple fund complexes.

Increased Efficiency and Transparency

Recognizing the benefits of creating a standardized and efficient way for financial intermediaries to report on the effectiveness of their control environment, a working group of Investment Company Institute (ICI) member firms and representatives of the four national accounting firms developed the Financial Intermediary Controls and Compliance Assessment (FICCA) engagement framework in 2008. The framework calls for the omnibus account recordkeeper to engage an independent accounting firm to assess its internal controls relating to specified activities the intermediary performs for its shareholder accounts. The FICCA engagement is performed under attestation standards issued by the American Institute of Certified Public Accountants (AICPA). The auditor’s report expresses an opinion on its evaluation of an intermediary’s assertion that it has established specified control objectives and related controls that were suitably designed and operating effectively. A sample report of independent accountants and a sample management assertion for this type of engagement are provided in Section IV.

A Flexible, Efficient Framework

The FICCA framework developed by the fund industry describes multiple areas of focus where fund sponsors are seeking assurances. These areas include document retention and recordkeeping, transaction processing, shareholder communications, privacy protection, and anti–money laundering, among other things. Details regarding the 17 areas of focus are documented on the FICCA “matrix” in Section II.

¹ Omnibus accounts are held in the name of the intermediary on a mutual fund transfer agent’s records. The intermediary maintains the underlying shareholder account information on its own recordkeeping systems—a process known as subaccounting—and reports share transactions to the funds on an aggregate basis. The intermediary handles all communications and servicing of its customer accounts. As a result, the underlying shareholders in an omnibus account do not directly interact with the fund organization, and the fund organization may have little, if any, knowledge or limited transparency about such underlying shareholders.

The scope of the auditor’s examination is intended to be flexible for the intermediary completing the engagement. The specific details of the engagement are agreed upon by the auditor and the intermediary firm. For example, if an omnibus firm has previously engaged an auditor to perform an examination under SSAE 16, Reporting on Controls at a Service Organization (formerly SAS 70) covering certain aspects of its operations, the FICCA assessment could be used to provide assurance on those areas not covered by the SSAE 16 report.² The intermediary also may provide the FICCA auditor’s report and other control reports to all of the funds it represents, thereby reducing the need for overlapping compliance reviews by each fund complex.

2014 FICCA Enhancements

Recognizing the value of this tool, many fund complexes have encouraged and requested FICCA reports from their significant intermediary partners. In response to these requests, several financial intermediaries (broker-dealer firms) conducted their first FICCA engagements and provided their reports to mutual fund transfer agents tasked with overseeing the financial intermediary’s activities. As the use of this oversight tool continued to expand, a working group of ICI member firms, representatives of the four national accounting firms, and financial intermediaries was formed and met throughout 2013 to review the 2008 FICCA framework. The review was conducted to enhance the performance of future engagements and improve the reports issued, in order to promote broader use by intermediaries and funds. The objectives of the working group were to:

- » provide a forum to share experiences and develop a better understanding of the types of FICCA reports issued to date;
- » validate that the control areas defined in the 2008 version of the FICCA matrix were still current and appropriate to ensure that intermediaries are meeting their compliance and contractual obligations;
- » review and update the framework based on feedback provided;
- » streamline and improve the documentation where appropriate, in order to facilitate a better understanding of and more efficient control engagements.

The review of the FICCA framework by the working group culminated in a variety of enhancements that have been incorporated into the 2014 matrix document:

- » The “Overview and Objective” section of the matrix now includes definitions of key terms and states that each of the 17 control areas (labeled “Areas of Focus”) should be addressed on an *annual* basis as part of the financial intermediary’s controls and compliance assessment engagement.
- » A review of the 17 areas of focus resulted in two specific changes on the matrix. First, “Financial Viability” was removed because this topic is covered in the intermediary’s audited financial statements, not as part of a FICCA or SSAE 16 report. Second, “Blue Sky Reporting” was added as a new area of focus on the 2014 matrix.

² SSAE 16 reports, prepared in accordance with the AICPA’s Auditing Standards Board’s Statement on Standards for Attestation Engagements (SSAE) No. 16, Reporting on Controls at a Service Organization, are specifically intended to meet the needs of the management of user entities and the user entities’ auditors, as they evaluate the effect of the controls at the service organization on the user entities’ financial statement assertions.

- » The column in the 2008 version of the matrix titled “Sample Control Objectives” was renamed “Management Description or Controls Testing” and now also indicates whether each area of focus should be subject to controls testing or covered in a management narrative.
- » The “Management Description or Controls Testing” and “Points to Consider” for the areas of focus were streamlined where appropriate to facilitate a more efficient engagement process for intermediaries and audit firms.
- » Language was added to the “Points to Consider” section of the matrix to clarify that the points provided are not intended to be a checklist or comprehensive listing of all relevant factors that may be considered for each control environment or engagement.

Importantly, a key goal of the working group was to preserve flexibility for intermediaries when providing funds’ independent assessments of the 17 control areas defined in the matrix. Because intermediaries may complete other attest engagements (such as an SSAE 16) in which certain controls defined on the matrix are already tested, the working group agreed that intermediaries should not be required to have independent audit firms perform duplicate testing or reporting. Consistent with the 2008 FICCA framework, an intermediary may provide multiple reports that cover the 17 controls defined in the matrix through either a combination of a FICCA report and other control report (e.g., SSAE 16) or through an all-inclusive FICCA report.

Additional Materials to Assist Industry Participants

The working group also developed the following new materials, which have been incorporated into the FICCA document, to further aid the understanding and efficiency of FICCA engagements:

- » A Glossary of Terms for the FICCA matrix (see Section III)
- » A Sample Report of Independent Accountants and a Sample Management Assertion typically provided for a FICCA engagement (see Section IV)
- » A FICCA Mapping Template for Control Reports that can be used by intermediaries to assist fund sponsors in determining where the 17 control areas defined in the FICCA matrix are covered, either as part of the FICCA report, the SSAE 16 (Type 2) service organization controls report, or a third-party vendor’s SSAE 16 (Type 2) report (see Section V)
- » An Internal Control Reporting Standards Reference Guide that provides information on the types of audit standards that may be used to conduct control engagements, including the compliance attestation and SSAE 16 reporting standards (see Section VI)

For More Information About the FICCA

Fund, intermediary, or audit firm representatives who are interested in learning more about the documentation should contact Kathleen Joaquin, ICI Chief Industry Operations Officer, at kjoaquin@ici.org or 202-326-5930; Marty Burns, ICI Senior Director of Operations and Distribution, at mburns@ici.org or 202-326-5980; or Greg Smith, ICI Senior Director of Fund Accounting, at smith@ici.org or 202-326-5851.

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II. FICCA Matrix

Overview and Objective

The Financial Intermediary Controls and Compliance Assessment (FICCA) matrix document is intended to provide guidance to financial intermediaries that engage independent accountants to report on their control and compliance environments and to mutual fund complexes that will use these auditor reports as part of their ongoing due diligence programs.

Terms used in the FICCA matrix are defined as follows:

- » **Client**—Refers to the user organization of the financial intermediary (typically the fund complex).
- » **Company**—Refers to the financial intermediary organization.
- » **Third-Party Vendor SSAE 16 Report**—Controls report issued by a third-party vendor providing services to the financial services intermediary organization. The report may address certain key functions, which are defined as areas of focus in the FICCA matrix (e.g., subaccount billing, invoice processing).
- » **Control Objectives**—Included in the detailed testing section of a controls report; testing of operating effectiveness is required on Control Objectives.
- » **Management Description**—Statements made by the financial intermediary organization that are included in the description of controls section in an SSAE 16 report, management's assertion in a FICCA report performed under the AT101 standard, or an unaudited section in either report. Operating effectiveness testing is not required on these topics.
- » **SSAE 16**—Auditing Standards Board of the American Institute of Certified Public Accountants' (AICPA) Statement on Standards for Attestation Engagements (SSAE) No. 16, Reporting on Controls at a Service Organization.

A more detailed glossary of terms used in the FICCA matrix is provided in Section III.

Areas of Focus

Each of the areas of focus described in the matrix as listed below should be addressed on an annual basis as part of the financial intermediary's controls and compliance engagements. This includes having an independent auditor test the operating effectiveness of controls as well as providing additional documentation to the fund complex to describe the policies, procedures, and controls that are in place for areas of focus that do not require formal operating effectiveness testing.

The matrix identifies whether each focus area might be covered in a FICCA report or an SSAE 16 report. The financial intermediary and its audit firm may use the Mapping Template for Control Reports provided in Section V to indicate where the recommended audit coverage can be found.

1. Management Reporting (Quality Control)
2. Risk Governance Program
3. Third-Party Oversight
4. Code of Ethics
5. Information Security Program
6. Anti-Money Laundering (AML) and the Prevention of Terrorist Financing
7. Document Retention and Recordkeeping
8. Security Master Setup and Maintenance
9. Transaction Processing—Financial and Nonfinancial (e.g., Account Setup and Maintenance)
10. Cash and Share Reconciliations
11. Lost and Missing Security Holders
12. Shareholder Communications
13. Subaccount Billing, Invoice Processing
14. Fee Calculations
15. Information Technology (Including Internet and VRU)
16. Business Continuity/Disaster Recovery
17. Blue Sky Reporting

FICCA Matrix Format

The FICCA matrix is organized in a table, and heading definitions are as follows:

Area of Focus	Reporting Mechanism			Management Description or Controls Testing	Points to Consider
	Financial Intermediary SSAE 16 Report	Financial Intermediary FICCA Report	Third-Party Vendor SSAE 16 Report		
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:</p> <ul style="list-style-type: none"> » SSAE 16, Reporting on Controls at a Service Organization (formerly SAS 70) (“Client SSAE 16 Report”); » 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 (“Client FICCA Report”); and » Controls performed by third parties where a separate controls report exists (“Third-Party Vendor SSAE 16 Report”). 			<p>Management Description: Company statements included in the description of controls section in an SSAE 16 report, management’s assertion in a FICCA report performed under the AT101 standard, or an unaudited section in either report.</p> <p>Controls Testing: Performance of controls testing by the independent auditor to determine if the controls described are suitably designed and operating effectively.</p>	<p>Suggested points for consideration when describing the procedures and controls for Areas of Focus. The points captured are a summary of the principal inquiries that fund sponsors have regarding the Areas of Focus and should be tailored based on the intermediary’s actual operations. It is not intended to be a checklist or a comprehensive listing of all relevant factors that may exist in each control environment or arrangement.</p>

FICCA Matrix: 17 Control Areas of Focus

Reporting Mechanism

Financial Intermediary SSAE 16 Report Financial Intermediary FICCA Report Third-Party Vendor SSAE 16 Report

Management Description or Controls Testing

Points to Consider

1) Management Reporting (Quality Control)

Management Description

Describe the overall oversight program and escalation procedures that support the quality assurance process, including the general tools and processes that are used by management to ensure quality and allow management to “review” the organization.

2) Risk Governance Program

Management Description

Describe the following:

- » Overview of the company;
 - » Identification of key business processes;
 - » Management oversight and controls;
 - » Responsibilities for risk governance and internal control;
 - » Legal and compliance responsibilities;
 - » Information technology;
 - » Use of subservice organizations; and,
 - » Other considerations for users of the report (e.g., control activities that should be present at user organizations).
- Other considerations include a description of the company’s:
- » Risk assessment process;
 - » Documentation of the risk assessment process; and,
 - » Senior management and/or board review and approval.

Reporting Mechanism

Financial Intermediary **Financial Intermediary** **Third-Party Vendor SSAE 16 Report** **Third-Party Vendor SSAE 16 Report**

Management Description or Controls Testing

Points to Consider

Area of Focus	Financial Intermediary Report	Financial Intermediary FICCA Report	Third-Party Vendor SSAE 16 Report	Third-Party Vendor SSAE 16 Report	Management Description or Controls Testing	Points to Consider
3) Third-Party Oversight	X	X	X		Management Description	<p>Describe the following:</p> <ul style="list-style-type: none"> » Whether or not the company uses subservice providers or subcontractors; » The primary partners or subcontractors; » Location: onsite, offsite, offshore; » Employee background checks; » Compliance awareness training; » Assessment process for subservice providers' or subcontractors' business continuity/disaster recovery plans; » The company's policy/practice related to subcontractors: <ul style="list-style-type: none"> • How long has this been a practice; • Communication protocols; • The conditions under which subcontractors are used; • How subcontractors are trained and held to the company's standards (e.g., privacy protection); and • Whether the subcontractor has a SSAE 16 report or other form of external oversight report. If not, how the company gains comfort with the subcontractors control environment.

Reporting Mechanism				Points to Consider
Area of Focus	Financial Intermediary Report	Financial Intermediary FICCA Report	Third-Party Vendor SSAE 16 Report	
4) Code of Ethics		X		<p>The company should have a Code of Ethics that contains provisions in accordance with applicable regulatory requirements.</p> <p>Controls provide reasonable assurance that the company's Code of Ethics has been:</p> <ul style="list-style-type: none"> » Formally documented; » Approved by the board (or other appropriate governing body); » Communicated to, and acknowledged by, employees in a timely manner; » Monitored by the compliance department (or other similar internal organization); and, » Designed to identify, research, and report exceptions, and that any resolution is documented in a timely manner.

Reporting Mechanism				Management Description or Controls Testing	Points to Consider
Area of Focus	Financial Intermediary SSAE 16 Report	Financial Intermediary FICCA Report	Third-Party Vendor SSAE 16 Report		
5) Information Security Program	X	X		<p>Controls provide reasonable assurance that the company's Information Security Program has been:</p> <ul style="list-style-type: none"> » Formally documented; » Approved by the board (or other appropriate governing body); » Communicated to, and acknowledged by, employees in a timely manner; » Monitored by the compliance department (or other similar internal organization); and, » Designed to identify, research, and report exceptions, and that any resolution is documented in a timely manner. 	<p>The company should have an information security policy that contains provisions such as:</p> <ul style="list-style-type: none"> » Definition of proprietary, nonpublic, or confidential information; » Formal response program for incidents of unauthorized access to, or use of, information; » Company's approach to privacy as it relates to its operations; » Laptop or portable device security, and » Impact on, and applicability to, third-parties (subcontractors). <p>Controls should address the process for:</p> <ul style="list-style-type: none"> » Monitoring compliance with applicable laws and regulations, and » Employee awareness and/or training.

Area of Focus	Reporting Mechanism			Management Description or Controls Testing	Points to Consider
	Financial Intermediary SSAE 16 Report	Financial Intermediary FICCA Report	Third-Party Vendor SSAE 16 Report		
	6) Anti-Money Laundering (AML) and the Prevention of Terrorist Financing		X		
				<p>Controls provide reasonable assurance that the company's Anti-Money Laundering and Terrorist Financing Prevention Policy has been:</p> <ul style="list-style-type: none"> » Formally documented; » Approved by the board (or other appropriate governing body); » Communicated to, and acknowledged by, employees in a timely manner; » Monitored by the compliance department (or other similar internal organization); and » Designed to identify, research, and report exceptions, and that any resolution is documented in a timely manner. 	

Reporting Mechanism				Points to Consider
Area of Focus	Financial Intermediary SSAE 16 Report	Financial Intermediary FICCA Report	Third-Party Vendor SSAE 16 Report	
7) Document Retention and Recordkeeping		X		<p>The company should have a Document Retention and Recordkeeping Policy that contains provisions in accordance with applicable regulatory requirements. For example:</p> <ul style="list-style-type: none"> » Time periods for retention of documents; » Document destruction protocols; » Tracking of changes to documents and the prevention of unintended alterations to records; and, » Provisions to put a “hold” on the records. <p>Controls should address the process for:</p> <ul style="list-style-type: none"> » How historical accounting records (since inception) are retained; » Document destruction practices; » Tracking of changes to documents and the prevention of unintended alterations to records; » The location of records: image system, microfilm, boxes, etc.; and » Subcontractor/vendor compliance.
				<p>Controls provide reasonable assurance that the company's Document Retention and Recordkeeping Guidelines have been:</p> <ul style="list-style-type: none"> » Formally documented; » Approved by the board (or other appropriate governing body); » Communicated to employees in a timely manner; » Monitored by the compliance department (or other similar internal organization); and » Designed to identify, research, and report exceptions, and that any resolution is documented in a timely manner.

Reporting Mechanism					Management Description or Controls Testing	Points to Consider
Area of Focus	Financial Intermediary SSAE 16 Report	Financial Intermediary FICCA Report	Third-Party Vendor SSAE 16 Report			
8) Security Master Setup and Maintenance	X	X	X	Controls provide reasonable assurance that new mutual funds and changes to existing funds are authorized and entered in the security master file in a complete, accurate, and timely manner.	<p>Controls should address the process for:</p> <ul style="list-style-type: none"> » Setting up and modifying key fund data that is maintained in the security master file (e.g., new funds, changes to prospectus and fund policies) » Reviewing the setup and maintenance activity to ensure it was authorized and performed completely and accurately. » Monitoring and escalation process to notify client (fund complex) management of those matters that require judgment (exceptions and/or overrides); and » Oversight of subservice providers (e.g., user control considerations at subaccounting platforms where these controls may be performed). 	

Reporting Mechanism

Financial Intermediary **Financial Intermediary** **Third-Party Vendor SSAE 16 Report** **SSAE 16 FICCA Report** **Third-Party Vendor SSAE 16 Report** **Management Description or Controls Testing**

Points to Consider

Area of Focus	Financial Intermediary SSAE 16 Report	Financial Intermediary FICCA Report	Third-Party Vendor SSAE 16 Report	Management Description or Controls Testing	Points to Consider
<p>9) Transaction Processing—Financial and Nonfinancial (e.g., Account Setup and Maintenance)</p>	X	X	X	<p>Financial: Controls provide reasonable assurance that:</p> <ul style="list-style-type: none"> » Specified transactions and adjustments, including as-of transactions, are authorized, processed accurately and timely, and are effected at the proper share price; » Specified transactions meet requirements contained in mutual fund prospectuses and statements of additional information governing shareholder transactions; » Dividends and capital gain distributions are recorded and paid or reinvested, based on authorized amounts, in an accurate and timely manner. 	<p>Financial: Controls should address the process for:</p> <ul style="list-style-type: none"> » Transactions received through various communication channels (e.g., phone, fax, internet, mail); » Mid-month account closeout (how investor accounts are credited with dividends); » Executing transactions in accordance with prospectus and regulatory requirements (including exception identification, escalation, and resolution). Examples include, but are not limited to: <ul style="list-style-type: none"> • Market timing monitoring, • Fund-initiated events (e.g., gains, divs, NAVs), • Customer-initiated trades (e.g., buy, sell, exchange), and • Corrective processing (as-of activity). » Compensation activity (e.g., 12b-1s, commissions, CSDC, redemption fees); and » Oversight of subservice providers (e.g., user control considerations at subaccounting platforms where these controls may be performed).

Area of Focus	Reporting Mechanism			Management Description or Controls Testing	Points to Consider
	Financial Intermediary SSAE 16 Report	Financial Intermediary FICCA Report	Third-Party Vendor SSAE 16 Report		
	9) Transaction Processing – Financial and Nonfinancial (e.g., Account Setup and Maintenance) (continued)	X	X		

Reporting Mechanism					Management Description or Controls Testing	Points to Consider
Area of Focus	Financial Intermediary SSAE 16 Report	Financial Intermediary FICCA Report	Third-Party Vendor SSAE 16 Report			
10) Cash and Share Reconciliations	X		X		<p>Controls provide reasonable assurance that accounts are reconciled and exceptions are identified, researched, and resolved in a timely manner.</p> <p>Controls provide reasonable assurance that beneficial owner accounts are reconciled at a CUSIP level between the subaccounting system, the brokerage platform and omnibus position held on the transfer agent system and exceptions are identified, researched, and resolved in a timely manner.</p>	<p>Controls should address the process for:</p> <ul style="list-style-type: none"> » Daily reconciliation; • Cash accounts; • Beneficial owner share positions at a CUSIP level between the subaccounting system, the brokerage platform and omnibus position held on the transfer agent system. » Guidelines (materiality levels) for exception identification; and, » Monitoring by management.

Area of Focus	Reporting Mechanism				Management Description or Controls Testing	Points to Consider
	Financial Intermediary SSAE 16 Report	Financial Intermediary FICCA Report	Third-Party Vendor SSAE 16 Report			
11) Lost and Missing Security Holders		X			<p>Controls provide reasonable assurance that the company has policies and procedures relating to reporting and remitting abandoned property to the SEC or states as appropriate and such policies and procedures:</p> <ul style="list-style-type: none"> » Are formally documented; » Ensure that accounts are monitored to determine when property becomes deemed abandoned and reported to the SEC; » Are implemented in a manner reasonably designed to ensure timely reporting and remittance of abandoned property to the appropriate state; and » Are reviewed on an ongoing basis to ensure they remain current. 	<p>The company should have a process to monitor accounts for purposes of federal and state reporting of lost securityholders/abandoned property. Such process should ensure that accounts are monitored to determine when an account must be deemed abandoned by law and to ensure the proper reporting of such account to the SEC and the states as required by law. Additionally, the company should have a process for remitting abandoned property to the appropriate state.</p>
12) Shareholder Communications			X		<p>Controls provide reasonable assurance that shareholder communications prepared by the fund are distributed in accordance with the financial intermediary's shareholder records in a complete, accurate, and timely manner.</p> <p>Controls provide reasonable assurance that shareholder statements and tax reporting are distributed in accordance with the financial intermediary's shareholder records in an accurate and timely manner.</p>	<p>Controls should address the process for:</p> <ul style="list-style-type: none"> » Delivery—how prospectuses, shareholder reports, statements (confirmations, monthly, quarterly, and year-end communications) and tax reporting (e.g., information reporting and withholding/remittance to shareholders and the IRS) get shipped or communicated (including electronically), and » Management monitoring.

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Reporting Mechanism					Points to Consider
Area of Focus	Financial Intermediary SSAE 16 Report	Financial Intermediary FICCA Report	Third-Party Vendor SSAE 16 Report	Management Description or Controls Testing	
13) Subaccount Billing, Invoice Processing	X	X	X	Controls provide reasonable assurance that amounts billed for shareholder servicing from financial intermediaries have been calculated and applied in accordance with the terms of the agreement between the intermediary and the fund or its affiliate.	<p>Controls should address the process for:</p> <ul style="list-style-type: none"> » Verification of fee amounts; » Comparing and ensuring agreement between the billing/invoicing information and the number of accounts on the underlying books and records; » Production and distribution of invoices; » Management monitoring; and » Oversight of subservice providers (e.g., user control considerations at subaccounting platforms where these controls may be performed).

Area of Focus	Reporting Mechanism				Management Description or Controls Testing	Points to Consider
	Financial Intermediary SSAE 16 Report	Financial Intermediary FICCA Report	Third-Party Vendor SSAE 16 Report			
	14) Fee Calculations	X	X	X		

Reporting Mechanism

	Financial Intermediary SSAE 16 Report	Financial Intermediary FICCA Report	Third-Party Vendor SSAE 16 Report
	X	X	X

Management Description or Controls Testing

Points to Consider

<p>15) Information Technology (Including Internet and VRU)</p>	<p>Controls provide reasonable assurance that</p> <ul style="list-style-type: none"> » Logical access to programs, data, and computer resources is restricted to authorized and appropriate users, and such users are restricted to performing authorized and appropriate actions. » Physical access to computer and other resources is restricted to authorized and appropriate personnel. » Changes to application programs and related data management systems are authorized, tested, documented, approved, and implemented to result in the complete, accurate, and timely processing and reporting of transactions and balances. » Network infrastructure is configured as authorized to (1) support the effective functioning of application controls to result in valid, complete, accurate, and timely processing and reporting of transactions and balances and (2) protect data from unauthorized changes. » Application and system processing are authorized and executed in a complete, accurate, and timely manner, and deviations, problems, and errors are identified, tracked, recorded, and resolved in a complete, accurate, and timely manner. » Data transmissions between the service organization and its user entities and other outside entities are from authorized sources and are complete, accurate, secure, and timely. » Data is backed up regularly and is available for restoration in the event of processing errors or unexpected processing interruptions. 	<p>Controls should address the process for:</p> <ul style="list-style-type: none"> » Application changes, including management oversight; » Downloads of data and interfaces with external parties; » Connectivity (e.g., are dedicated lines established for certain clients?); » Third-party providers the company uses for Information Technology services; » Network security; » Virus protection/propagation procedures; » Use and security of portable devices; and » Physical security: <ul style="list-style-type: none"> • Security infrastructure; • Entry point access (manual or electronic); and, • Access restrictions within various facilities.
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Reporting Mechanism				Points to Consider
Area of Focus	Financial Intermediary Report	Financial Intermediary Vendor SSAE 16 Report	Third-Party Vendor SSAE 16 Report	
16) Business Continuity/ Disaster Recovery		X		<p>The company should have business continuity and disaster recovery plan(s) that contain provisions in accordance with applicable regulatory requirements. The plan(s), procedures, and controls should address:</p> <ul style="list-style-type: none"> » The scenarios contemplated in the plan(s) and other general provisions; » Testing and training plan(s), including timetables (e.g., annual, semiannual); » Capabilities (i.e., “hot” site or “cold” site) and proximity of offsite locations; » Expected recovery timeframe for key systems and/or processes; » Communicating with outside parties (e.g., fund management) in the event of an emergency; » Power backup; and, » Other considerations associated with: <ul style="list-style-type: none"> • Systems; • People; • Facilities; and, • Various interruption scenarios: scenarios should contemplate items ranging from gas leaks and natural disasters to loss of key personnel, etc.).
				<p>Controls provide reasonable assurance that business continuity and disaster recovery plans have been:</p> <ul style="list-style-type: none"> » Formally documented; » Approved by the board (or other appropriate governing body); » Communicated to employees in a timely manner; » Implemented and maintained: <ul style="list-style-type: none"> • Data and systems are backed up regularly and retained offsite; • Information Technology hardware and software issues are monitored and resolved in a timely manner; and • Tested, including testing for data and systems recoverability.

Continued from previous page

Reporting Mechanism					Points to Consider
Area of Focus	Financial Intermediary Report	Financial Intermediary FICCA Report	Third-Party Vendor SSAFE 16 Report	Management Description or Controls Testing	
17) Blue Sky Reporting	X	X	X	Controls provide reasonable assurance that sales by state are reported to the fund or its blue sky agent in an accurate and timely manner.	<p>Controls should address the process for:</p> <ul style="list-style-type: none"> » Verification that sales by state as reported to the fund or its blue sky agent reconcile with the sales by state reflected on the intermediary's underlying books and records; » Production and distribution of reports; » Management monitoring; and » Oversight of subservice providers (e.g., user control considerations at subaccounting platforms where these controls may be performed).

III. Glossary of Terms

Section	Term	Definition
General	AICPA (American Institute of Certified Public Accountants)	The nonprofit professional organization of certified public accountants in the United States. The AICPA represents the CPA profession nationally regarding rulemaking and standard-setting, and serves as an advocate before legislative bodies, public interest groups, and other professional organizations. The AICPA develops standards for audits of private companies and other services by CPAs; provides educational guidance materials to its members; develops and grades the Uniform CPA Examination; and monitors and enforces compliance with the profession's technical and ethical standards.
	AT 101 report	AT 101 reports are intended to meet the needs of a broad range of users that need to understand internal control at a service organization. These reports are intended for use by stakeholders (e.g., customers, regulators, business partners, suppliers, directors) of the service organization that have a thorough understanding of the service organization and its internal controls. These reports can form an important part of stakeholders': <ul style="list-style-type: none">» Oversight of the organization» Vendor management program» Internal corporate governance and risk management processes» Regulatory oversight
	Control activities	Control activities are the policies and procedures that help ensure that management directives are carried out.
	Control environment	The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.
	Control objective	A control objective provides a specific target against which to evaluate the effectiveness of controls.
	Operating effectiveness	A control is determined to be operating effectively if it is executed as designed on the predetermined frequency.
	SSAE 16 report	SSAE 16 reports, prepared in accordance with the AICPA's Auditing Standards Board's Statement on Standards for Attestation Engagements (SSAE) No. 16, Reporting on Controls at a Service Organization, are specifically intended to meet the needs of the management of user entities and the user entities' auditors, as they evaluate the effect of the controls at the service organization on the user entities' financial statement assertions. There are two types of reports: <ul style="list-style-type: none">» Type 1: report on the fairness of the presentation of management's description of the service organization's system and the suitability of the design of the controls to achieve the related control objectives included in the description as of a specified date.» Type 2: report on the fairness of the presentation of management's description of the service organization's system and the suitability of the design and operating effectiveness of the controls to achieve the related control objectives included in the description throughout a specified period. The use of these reports is restricted to the management of the service organization, user entities of the service organization, and user auditors.

Section	Term	Definition
General	<i>Third-party vendor organization</i>	A vendor service organization used by another service organization to perform some of the services provided to user entities that are likely to be relevant to those user entities' internal control over financial reporting.
Section 2	<i>Internal control</i>	Internal control is the set of policies and procedures designed, implemented, and maintained by those charged with governance, management, and other personnel to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
	<i>Risk assessment</i>	Risk assessment is the entity's process for identifying and analyzing risks relevant to achieve its objectives, as well as forming a basis for determining how those risks should be managed.
Section 4	<i>Code of ethics</i>	A guide of principles designed to help professionals conduct business honestly and with integrity.
Section 6	<i>AML (anti-money laundering)</i>	A set of procedures, laws, or regulations designed to prevent, detect, and report money laundering activities. Money laundering generally involves concealing the source of money that has been obtained through illegitimate means.
	<i>BSA (Bank Secrecy Act)</i>	Congress passed the Bank Secrecy Act (BSA) in 1970 as the first laws to fight money laundering in the United States. The BSA requires businesses to keep records and file reports that are determined to have a high degree of usefulness in criminal, tax, and regulatory matters. The documents filed by businesses under the BSA requirements are heavily used by law enforcement agencies, both domestic and international, to identify, detect, and deter money laundering whether it is in furtherance of a criminal enterprise, terrorism, tax evasion, or other unlawful activity.
	<i>OFAC (Office of Foreign Assets Control)</i>	The Office of Foreign Assets Control (OFAC) of the U.S. Department of the Treasury administers and enforces economic and trade sanctions based on U.S. foreign policy and national security goals against targeted foreign countries and regimes, terrorists, international narcotics traffickers, those engaged in activities related to the proliferation of weapons of mass destruction, and other threats to the national security, foreign policy, or economy of the United States.
Section 8	<i>Security master file</i>	The records on the brokerage or intermediary platform containing descriptive security data, such as security name, type, eligibilities, and fee schedules, as defined in fund prospectuses and processing rules.
	<i>Subaccounting platform</i>	Recordkeeping platform used by the subaccounting agent who assists financial intermediaries in maintaining mutual fund shareholder account and transaction records.
	<i>User control consideration</i>	Controls that the service organization assumes, in the design of its service, will be implemented by the user entity, and which, if necessary to achieve control objectives, are identified in the description of its system.
Section 9	<i>Account closeout</i>	When an account is closed or terminated by the shareholder.
	<i>As-of transaction</i>	A transaction that receives an effective date prior to its trade (processing) date.
	<i>Beneficial owner</i>	Term for the underlying investor who owns fund shares in an account held on the intermediary's books and records. The shares, in turn, are held in an aggregate omnibus account registered to the intermediary firm on the fund transfer agent's recordkeeping system.

Section	Term	Definition
Section 9	<i>Mutual fund prospectus</i>	The official document that describes an investment company to prospective investors. The prospectus contains information required by the SEC, such as investment objectives and policies, risks, services, and fees.
	<i>Statement of additional information (SAI)</i>	The supplementary document to a prospectus that contains more detailed information about a mutual fund; also known as Part B of the prospectus.
Section 10	<i>Brokerage platform</i>	Platform used by a financial intermediary to provide mutual fund shareholder servicing functions.
	<i>CUSIP</i>	A means of uniformly describing and identifying all stocks and registered bonds in numeric form developed by the Committee on Uniform Security Identification Procedure (CUSIP).
	<i>Omnibus position</i>	An omnibus position on a mutual fund's primary transfer agency system represents the aggregate share balance of multiple investors. Any underlying investor information provided by intermediaries after transaction processing may be limited (partial disclosure), and currently is not incorporated in the fund's primary transfer agent recordkeeping system.
	<i>Transfer agent</i>	The internal or external organization that a mutual fund uses to process shareholder transactions, maintain related records, provide relevant shareholder communications and reporting, and service investor accounts.
Section 11	<i>Abandoned property</i>	Assets such as cash, stocks, bonds, mutual funds, uncashed checks, land, life insurance policies, and the contents of safe deposit boxes that have been turned over to the state after prescribed periods of inactivity.
	<i>Securities and Exchange Commission (SEC)</i>	The primary U.S. government agency responsible for the regulation of the day-to-day operations and disclosure obligations of registered investment companies.
Section 13	<i>Subaccount billing</i>	Fees calculated and billed to mutual fund complexes by financial intermediaries for shareholder servicing, recordkeeping, and reporting functions.
Section 14	<i>CDSC (contingent deferred sales charge)</i>	A fee imposed by some mutual funds when shares are redeemed (sold back) during the first few years of ownership. CDSCs typically decline over a specified number of years, eventually falling to zero. Under specific prospectus provisions, the CDSC is triggered if the investor redeems fund shares before a given number of years of ownership (typically six to eight years for Class B shares).
	<i>Free shares</i>	Acquired shares that are not subject to a commission (e.g., shares are no longer, or were never, subject to front- or back-end sales charges).
	<i>Initial sales charges</i>	Amounts charged for the sales of some mutual fund shares. Charges may vary depending on the amount invested and the fund chosen. By regulation, mutual fund sales charges are capped.
	<i>Letter of intent (LOI)</i>	A privilege allowing individual investors who intend to invest an amount in excess of a load fund's breakpoint within a designated time period to pay a reduced sales charge applicable had such an investment been made in a single lump sum.
	<i>Lot tracking</i>	Recording of the investor's share purchase and redemption activity to enable the calculation and tax treatment for compliance and reporting upon sale.
	<i>Redemption fees</i>	The amount a shareholder may pay to the fund when redeeming fund shares within a specified period of time. This fee is to cover the costs associated with the redemption and to deter market timing activity.

Section	Term	Definition
Section 14	<i>Right of accumulation</i>	An account privilege that allows individual investors or groups of related investors to combine their account balances and share purchases (within the same fund family) when calculating a sales load rate, in order to receive the appropriate discounted sales charge in accordance with the fund's prospectus policies.
	<i>Share aging</i>	Tracking of the investor's share purchase and sale activity for load funds so the appropriate fees and sales charges are applied based on purchase date and sale date.
	<i>Share class</i>	Many mutual funds offer investors different types, or classes, of shares (e.g., Class A, Class C, institutional shares). Each class will invest in the same portfolio of securities and will have the same investment objectives and policies, but each class will have different shareholder profiles and services and/or distribution arrangements with different fees and expenses and, therefore, different expense ratios. A multiclass structure offers investors the ability to select a fee and expense structure that is most appropriate for their investment goals (including the time that they expect to remain invested in the fund).
	<i>12b-1 fee</i>	A mutual fund fee, named for the SEC rule that permits it, used to pay distribution costs and administrative service fees such as compensation to financial advisers for initial and ongoing assistance. If a fund has a 12b-1 fee, it will be disclosed in the fee table of the fund's prospectus.
	<i>Waiver</i>	When an investment adviser, administrator, or distributor decides to temporarily forgo all or part of the management fee, administration fee, or 12b-1 fee paid by the mutual fund.
Section 15	<i>VRU (voice response unit)</i>	An automated telephone system that enables shareholders to obtain net asset values, performance information, and account information. Certain systems also may enable shareholders to make exchanges, redemptions, or additional investments.
Section 17	<i>Blue sky reporting</i>	State regulations designed to protect investors against securities fraud by requiring sellers of new issues to register their offerings and provide financial details.

IV. Sample Report of Independent Accountants and Management Assertion

Introduction

On the following pages are examples of a report of independent accountants and a management assertion that would be provided in connection with a FICCA engagement. The exact language in the report of independent accountants and management assertion for a particular engagement may vary. Independent auditors are responsible for complying with their professional standards and those standards address the form and content of auditor reports.

Report of independent accountants—The auditor expresses an opinion on whether management’s assertion is fairly stated based on the specified control objectives. The auditor’s opinion is based on its examination, which includes obtaining an understanding of and evaluating the suitability of the design and operating effectiveness of the controls intended to achieve the specified control objectives. The specific controls tested and the nature, timing, and results of those tests are presented in a document that accompanies the auditor report. The auditor report is addressed to management of the intermediary and is intended for use by management of the intermediary and fund companies that have contracted with the financial intermediary to provide shareholder servicing and recordkeeping functions.

Management assertion—Management of the intermediary asserts that they have established control objectives and related controls and that those controls were suitably designed as of the specified period end to provide reasonable assurance that the control objectives would be achieved. Management of the intermediary also asserts that the controls were operating with sufficient effectiveness to provide reasonable assurance that the specified control objectives were achieved throughout a specified period. The control objectives and related controls are the responsibility of management and are presented in a document that accompanies the assertion (“Management Description”). The specific control objectives and related controls included in the Management Description would incorporate the 17 areas of focus detailed in the FICCA matrix.

Report of Independent Accountants

To the Management of [Client Name],

Scope

We have examined the assertion made by the management of [Client Name], an indirect wholly owned subsidiary of [Client Name], (the “Company” or “[Client Name]”) pertaining to specified control objectives and related controls for certain financial intermediary functions provided to its user organizations. Management’s assertion is included in Section Two of this report and states that:

- » The controls were suitably designed as of [Period End] to provide reasonable assurance that the specified control objectives included would be achieved, if those controls were complied with satisfactorily and user organizations applied the user control considerations contemplated in the design of [Client Name]’s controls as of [Period End].
- » The controls were operating with sufficient effectiveness to provide reasonable assurance that the specified control objectives were achieved throughout the period [Period Start] to [Period End], if user organizations applied the user control considerations contemplated in the design of [Client Name]’s controls throughout the period [Period Start] to [Period End].

Management is responsible for its assertion. Our responsibility is to express an opinion on management’s assertion based on our examination.

[Client Name] uses [Subservice Organization Name], [Description of Subservice Organization Use]. Management’s assertion includes only the control objectives and related controls of [Client Name] and excludes the control objectives and related controls of [Subservice Organization Name]. Our examination did not extend to controls of [Subservice Organization Name].

Our responsibilities

Our responsibility is to express an opinion on management’s assertion based on our examination. Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of and evaluating the suitability of the design and operating effectiveness of the controls intended to achieve the specified control objectives and examining, on a test basis, evidence supporting management’s assertion and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Inherent limitations

Our examination was limited to examining the specified control objectives and related controls and did not consider any other control objectives or controls that may be relevant to management or the user organizations’ internal control over financial intermediary functions. The effectiveness of controls to achieve the specified control objectives is subject to inherent limitations and,

accordingly, errors or fraud may occur and not be detected. Furthermore, the projection of any evaluations of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions, that the degree of compliance with such controls may deteriorate, or that changes made to the system or controls, or the failure to make needed changes to the system or controls, may alter the validity of such evaluations.

Other information provided by [Client Name]

The information included in Section Five, “Other Information Provided by [Client Name] (unaudited),” is presented by management of the Company to provide additional information and is not a part of management’s assertion. Information about the Company’s [Additional Information] has not been subjected to the procedures applied in the examination of management’s assertion and of the suitability of the design and operating effectiveness of controls to achieve the specified control objectives stated in management’s assertion and accordingly, we express no opinion on it.

Opinion

In our opinion, management’s assertion referred to above is fairly stated, in all material respects, based on the specified control objectives set forth in management’s assertion.

Description of tests of controls

The specific controls tested and the nature, timing, and results of those tests are listed in Section Four.

Restricted use

This report, including the description of tests of controls and results thereof in Section Four, is intended solely for the information and use by the management of the Company, and by the user organizations of the Company’s financial intermediary functions during the period [Period Start] to [Period End] and is not intended to be and should not be used by anyone other than these specified parties.

[Signature]

[Date]

[Client Name]’s Management Assertion

[Client Name], (the “Company”) provides certain financial intermediary functions to fund companies (“user organizations”). Management reviewed the Investment Company Institute’s Financial Intermediary Controls and Compliance Assessment Matrix (“the framework”) to determine the areas of focus to be included in our assertion. For each of the areas of focus included in our assertion, management established control objectives (“specified control objectives”) and related controls. These specified control objectives and related controls are the responsibility of [Client Name] and are presented in Section Three, “[Client Name]’s Management Description.” We, as members of management, are responsible for establishing the specified control objectives and related controls, and for the suitability of the design and operating effectiveness of the controls.

Management’s description identifies the framework areas of focus that are excluded from management’s description or addressed in another report on [Client Name]’s controls. Additionally, as stated in management’s description, [Client Name] uses the following subservice organizations:

[Client Name] uses [Subservice Organization Name], [Description of Subservice Organization / Function].

Management’s description includes only those specified control objectives and related controls of, [Client Name] and does not include control objectives and related controls of subservice organizations.

We have evaluated whether [Client’s Name]’s controls were suitability designed and operating effectively to achieve the specified control objectives throughout the period [Period Start] to [Period End]. The criteria against which the controls were evaluated are the specified control objectives included in management’s description. Based on our evaluation, we assert that:

- » The controls were suitably designed as of [Period End] to provide reasonable assurance that the specified control objectives would be achieved, if those controls were complied with satisfactorily and user organizations applied the user control considerations contemplated in the design of [Client Name]’s controls as of [Period End].
- » The controls were operating with sufficient effectiveness to provide reasonable assurance that the specified control objectives were achieved throughout the period [Period Start] to [Period End], if user organizations applied the user control considerations contemplated in the design of [Client Name]’ controls throughout the period [Period Start] to [Period End].

[Sign]

[Date]

V. Mapping Template for Control Reports

Mapping of [Intermediary Name]’s Control and Compliance Environment to the Financial Intermediary Controls and Compliance Assessment (FICCA) Matrix

[Intermediary Name] has engaged [Audit Firm Name] to report on its control and compliance environment. ICI’s FICCA matrix covers 17 Areas of Focus for which fund sponsors seek assurance that the intermediary has established controls and that those controls are operating as intended. Fund sponsors expect that all 17 Areas of Focus will be reported on once per year.¹

The following template is intended to help fund sponsors determine, for each of the 17 Areas of Focus, whether it is covered by a Type 2 SSAE 16 service organization controls report, a AT 101 FICCA report, or a third-party vendor’s Type 2 SSAE 16 report.

For each of the Areas of Focus covered, the template indicates the recommended audit coverage—a Management Description or Controls Testing—as those terms are defined in the FICCA matrix. The intermediary should complete the mapping by placing a check mark (✓) in the appropriate column indicating where the recommended audit coverage can be found.² Where the intermediary has oversight over a third-party vendor performing an area of focus (e.g., Transaction Processing), that intermediary may place a check in more than one column.

¹ The annual reporting cycle may take some time to phase in.

² If a particular area of focus is not covered by auditor reporting, then leave that row blank.

Mapping to be Prepared by Intermediary and Provided to Fund Sponsor

Investment Company Institute's Financial Intermediary Controls and Compliance Assessment Matrix Areas of Focus	Recommended Audit Coverage	SSAE 16 Report for the period [date] to [date]	FICCA Report for the period [date] to [date]	Third-Party Vendor SSAE 16 Report for the period [date] to [date]
1. Management Reporting (Quality Control)	Management Description			
2. Risk Governance Program	Management Description			
3. Third-Party Oversight	Management Description			
4. Code of Ethics	Controls Tested			
5. Information Security Program	Controls Tested			
6. Anti-Money Laundering (AML) and the Prevention of Terrorist Financing	Controls Tested			
7. Document Retention and Recordkeeping	Controls Tested			
8. Security Master Setup and Maintenance	Controls Tested			
9. Transaction Processing—Financial and Nonfinancial (e.g., Account Setup and Maintenance)	Controls Tested			
10. Cash and Share Reconciliation	Controls Tested			
11. Lost and Missing Security Holders	Controls Tested			
12. Shareholder Communications	Controls Tested			
13. Subaccount Billing, Invoice Processing	Controls Tested			
14. Fee Calculations	Controls Tested			
15. Information Technology (Including Internet and VRU)	Controls Tested			
16. Business Continuity/Disaster Recovery	Controls Tested			
17. Blue Sky Reporting	Controls Tested			

VI. Internal Control Reporting Standards Reference Guide

Common Name	AICPA Standard	Engagement Type	Report Includes	Restrictions on the Use of the Report	Examples
SOC 1 or SSAE16	AT Section 801	Reporting on Controls at a Service Organization Relevant to User Entities' Internal Control over Financial Reporting	<ul style="list-style-type: none"> » Fairness of the presentation of management's description » Suitability of the design of the service organization's controls » Operating effectiveness of the service organization's controls » Description of the tests performed and the results of those tests 	Management of the service organization, user entities, and the auditors of the user entities' financial statements	"SAS 70"/SSAE 16 reports
Soc 2	AT Section 101	Reporting on Controls at a Service Organization Relevant to Security Availability, Processing Integrity, Confidentiality, or Privacy	<ul style="list-style-type: none"> » Fairness of the presentation of management's description » Suitability of the design of the service organization's controls » Operating effectiveness of the service organization's controls » Description of the tests performed and the results of those tests 	Parties that are knowledgeable about the nature of the service provided by the service organization	Report covering one or more of the Trust Services Principles
SOC 3	AT Section 101	Reporting on Controls at a Service Organization Relevant to Security Availability, Processing Integrity, Confidentiality, or Privacy	Reporting on whether an entity has maintained effective controls over its system with respect to security, availability, processing integrity, confidentiality, or privacy	This is a general-use report	SysTrust or WebTrust
AT101	AT Section 101	Reporting on a Service Provider's Controls to Achieve Compliance Control Objectives Relevant to SEC Rules 38a-1 and 206(4)-7	Reporting on the suitability of the design and operating effectiveness of a service provider's controls over compliance that may affect user entities' compliance	Chief compliance officers, management, boards of directors, and independent auditors of the service provider and of the entities that use the services of the service provider	17Ad-13, Custody Rule, Financial Intermediary Controls and Compliance Assessment (FICCA), CCO/38a-1

Continued from previous page

Common Name	AICPA Standard	Engagement Type	Report Includes	Restrictions on the Use of the Report	Examples
Agreed-Upon Procedures (AUP)	AT Section 201	Performing the Agreed-Upon Procedures Referred to in Paragraph 3 of SSAE No. 16	<ul style="list-style-type: none"> » Performing and reporting on the results of agreed-upon procedures related to the controls of a service organization or to transactions or balances of a user entity maintained by a service organization » This report contains a description of the procedures performed by the practitioner and the results of those procedures. 	The specified parties that agreed-upon the sufficiency of the procedures for their purposes	Equity Compensation, or Specific calculations
Compliance Attestation	AT Section 601	Reporting on Controls over Compliance with Laws and Regulations	Reporting on the effectiveness of an entity's internal control over compliance with the requirements of specified laws, regulations, rules, contracts, or grants	Limited number of parties who established the criteria or can be presumed to understand the criteria	Vendor Contract Compliance, Reg AB



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