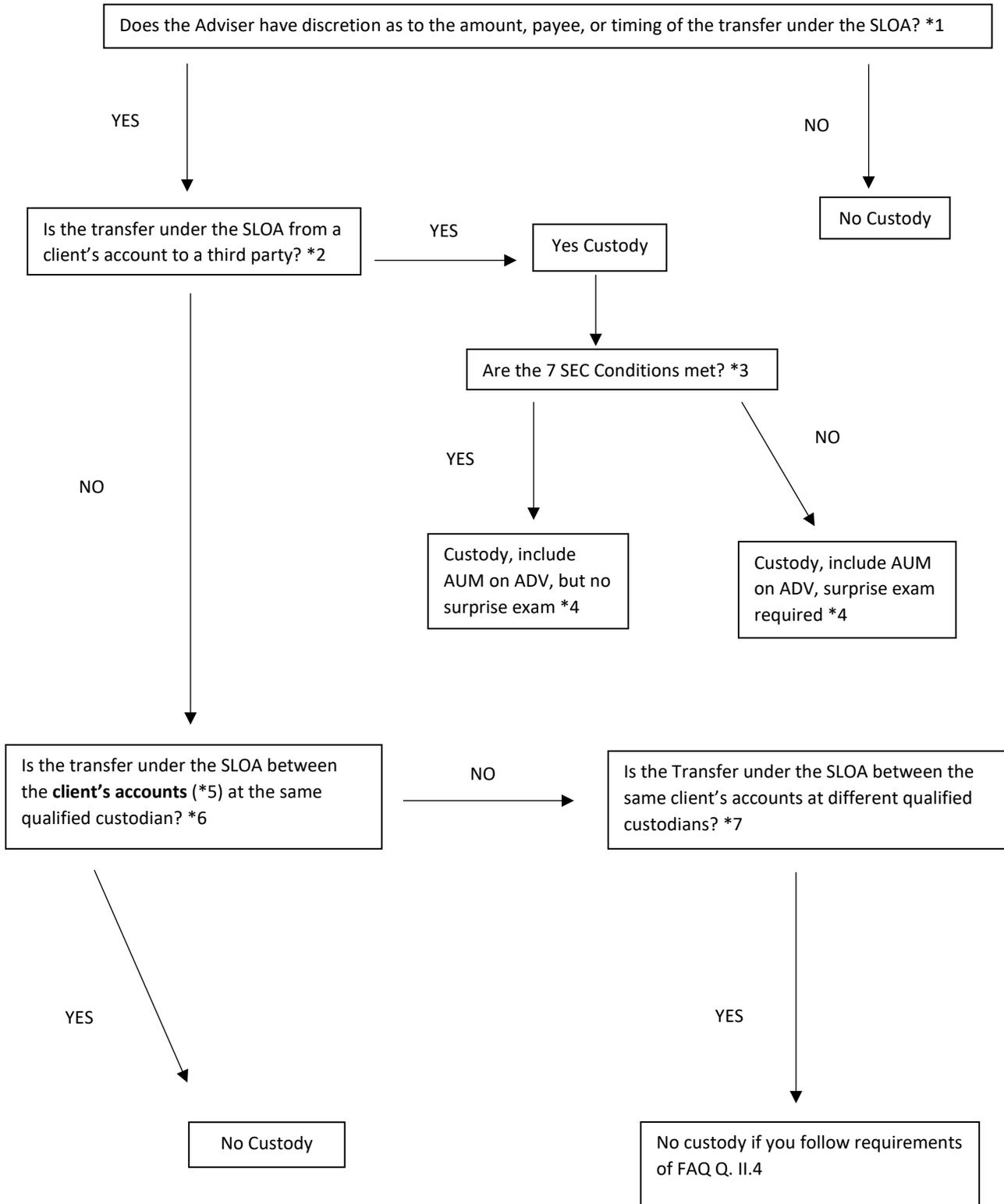


STANDING LETTERS OF AUTHORIZATION & CUSTODY



NOTE – If the advisor has authority to remit the funds or securities to the client's address of record, there is no custody *8

STANDING LETTERS OF AUTHORIZATION & CUSTODY

*1 “The staff understands that there is no standardized format for a SLOA. Investment advisers, qualified custodians and their clients have developed a wide variety of SLOAs for third-party transfers, each of which could implicate the Custody Rule depending on the extent of the adviser’s discretion to act. For example, an arrangement that is structured so that the investment adviser does not have discretion as to the amount, payee, and timing of transfers under a SLOA would not implicate the Custody Rule.” See footnote 1 of SEC No-Action Letter dated 2/21/17.

*2 See footnote 1 of SEC No-Action Letter dated 2/21/17.

*3 Under the guidance provided by the SEC No-Action Letter dated 2/21/17, if an Adviser had custody as a result of an SLOA, the assets need to be included in the custody count on Form ADV, but no surprise exam is necessary if:

1. The client provides an instruction to the qualified custodian, in writing, that includes the client’s signature, the third party’s name, and either the third party’s address or the third party’s account number at a custodian to which the transfer should be directed.
2. The client authorizes the investment adviser, in writing, either on the qualified custodian’s form or separately, to direct transfers to the third party either on a specified schedule or from time to time.
3. The client’s qualified custodian performs appropriate verification of the instruction, such as a signature review or other method to verify the client’s authorization, and provides a transfer of funds notice to the client promptly after each transfer.
4. The client has the ability to terminate or change the instruction to the client’s qualified custodian.
5. The investment adviser has no authority or ability to designate or change the identity of the third party, the address, or any other information about the third party contained in the client’s instruction.
6. The investment adviser maintains records showing that the third party is not a related party of the investment adviser or located at the same address as the investment adviser.
7. The client’s qualified custodian sends the client, in writing, an initial notice confirming the instruction and an annual notice reconfirming the instruction.

*4 Beginning with the next annual updating amendment after October 1, 2017, an investment adviser should include client assets that are subject to a SLOA that result in custody in its response to Item 9 of Form ADV.

*5 ‘Client’s accounts’ has not been specifically defined by the SEC. A strict interpretation may require the send account and receiving account to have identical registration. A broader interpretation may allow for transfers between accounts where the client is an owner of both accounts and not require an exact registration match. For example – transfer from a joint account to an individual account or individual account to an IRA account for the same individual.

*6 “An adviser’s authority to transfer client assets between the client’s accounts at the same qualified custodian or between affiliated qualified custodians that both have access to the sending and receiving account numbers and client account name (e.g., to make first-party journal entries) does not constitute custody and does not require further specification of client accounts in the authorization.” See FAQ Q II.4

*7 “We do not interpret the authority to withdraw assets to include the limited authority to transfer a client’s assets between the client’s accounts maintained at one or more qualified custodians if the client has authorized the adviser in writing to make such transfers and a copy of that authorization is provided to the qualified custodians, specifying the client accounts maintained with qualified custodians. In the staff’s view, “specifying” would mean that the written authorization signed by the client and provided to the sending custodian states with particularity the name and account numbers on sending and receiving accounts (including the ABA routing number(s) or name(s) of the receiving custodian) such that the sending custodian has a record that the client has identified the accounts for which the transfer is being effected [sic] as belonging to the client. That authorization does not need to be provided to the receiving custodian.” See FAQ Q II.4

*8 “Q: Does an adviser have custody if it has authority to instruct the qualified custodian that maintains a client’s account to remit the funds or securities from the account to the same client at his or her address of record? A: We do not interpret the authority to instruct the qualified custodian maintaining a client’s account to remit the funds or securities from the account from time to time to the same client at his or her address of record as having custody if (1) the client has granted such authority to the adviser in writing and a copy of that authorization is provided to the qualified custodian, (2) the adviser has no authority to open an account on behalf of the client; and (3) the adviser has no authority to designate or change the client’s address of record with the qualified custodian. (Modified September 9, 2010).” See FAQ Q II.5.A