

MEMO# 16995

January 22, 2004

SEC LETTER TO INSTITUTE REGARDING POLICY ON PROVIDING DEFICIENCY LETTERS TO INVESTMENT COMPANY BOARDS OF DIRECTORS

[16995] January 22, 2004 TO: ACCOUNTING/TREASURERS MEMBERS No. 1-04 CLOSED-END INVESTMENT COMPANY MEMBERS No. 2-04 COMPLIANCE ADVISORY COMMITTEE No. 9-04 INVESTMENT COMPANY DIRECTORS No. 2-04 SEC RULES MEMBERS No. 8-04 SMALL FUNDS MEMBERS No. 3-04 TRANSFER AGENT ADVISORY COMMITTEE No. 10-04 RE: SEC LETTER TO INSTITUTE REGARDING POLICY ON PROVIDING DEFICIENCY LETTERS TO INVESTMENT COMPANY BOARDS OF DIRECTORS The staff of the Securities and Exchange Commission's Office of Compliance Inspections and Examinations ("OCIE") has recently sent a letter to the Institute setting forth OCIE's policy on the practice of providing copies of deficiency letters to investment company boards of directors.¹ A copy of the staff's letter is attached. The staff's letter discusses the deficiency reporting process generally with respect to problems and weaknesses that are uncovered during an OCIE inspection. The letter also discusses inspections of a fund group's affiliated service providers, including the fund's investment adviser, transfer agent, administrator, and/or distributor, and notes that any resulting deficiency letters describing any violations or deficiencies found in the entity are sent to the entity's chief legal officer, compliance officer or other senior management person. To assist fund boards in their oversight of compliance matters, the letter states that it is OCIE's policy to provide deficiency letters to fund boards (either by mail directly to the fund's chairman, or to the fund's chief compliance officer, pursuant to the Commission's recently adopted rules, or other senior management official with a directive that the letter be provided to the fund board). The letter adds that depending on the severity of the findings, the deficiency letter may ask the board to review the issue and respond in writing directly to the staff indicating its intended action to address the deficiency or violation. For particularly significant problems and issues, the staff may request to meet with the board directly. Barry E. Simmons Associate Counsel Attachment (in .pdf format) 1 Letter from Lori A. Richards, Director, Office of Compliance Inspections and Examinations, SEC, to Craig Tyle, General Counsel, Investment Company Institute, dated January 21, 2004.

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