

General Requirements Regarding SIPC Rule 600

With limited exceptions, Securities and Exchange Commission (“Commission”) Rule 17a-5(d), 17 C.F.R. § 240.17a-5(d), requires every broker-dealer registered under Section 15 of the Securities Exchange Act of 1934 (“Exchange Act”), 15 U.S.C. §§ 78a *et seq.*, to file an annual financial report that includes a statement of income. Commission Rule 17a-5(e)(4), 17 C.F.R. § 240.17a-5(e), further provides that a broker-dealer must file with SIPC, as part of the broker-dealer’s annual assessment, a report that “contains such information and is in such format as determined by SIPC by rule and approved by the Commission.” With Commission approval, SIPC adopted SIPC Rule 600, 17 C.F.R. § 300.600 to implement Commission Rule 17a-5(e)(4).

With limited exceptions, SIPC Rule 600(a) provides that any broker-dealer required to submit an annual financial report under Commission Rule 17a-5 must file a supplemental report with SIPC within sixty days of the end of its fiscal year. That supplemental report must include the report (“AUP Report”) of an independent public accountant engaged by the relevant broker-dealer to perform specified “agreed-upon procedures in accordance with standards of the Public Company Accounting Oversight Board (PCAOB).”

PCAOB Attestation Standard 201.25 provides that “[t]he concept of materiality does not apply to findings to be reported in an agreed-upon procedures engagement unless the definition of materiality is agreed to by the specified parties. Any agreed-upon materiality limits should be described in the practitioner's report.”¹

Pursuant to SIPC Rule 600(b)(3)(ii), the AUP Report must include a comparison of amounts reflected in the audited financial statements required by an SEC rule with amounts reported in the Form SIPC-7².

Pursuant to SIPC Rule 600(b)(3)(iii), the AUP Report must include a comparison of adjustments reported in the Form SIPC-7 with supporting schedules and working papers supporting the adjustments³.

¹ In accordance with AICPA AU-C 700.44, when conducting an audit of financial statements in accordance with the standards of the PCAOB and the audit is not within the jurisdiction of the PCAOB, the auditor should also conduct the audit in accordance with GAAS. In such circumstances, when the auditor refers to the standards of the PCAOB in addition to GAAS in the auditor’s report, the auditor should use the form of report required by the standards of the PCAOB, amended to state that the audit was also conducted in accordance with GAAS. GAAS uses the term “threshold for reporting exceptions” to define materiality agreed by the specified parties.

² To specify, the AUP Report must include, for the relevant fiscal year, a comparison of the total revenue (“Annual Report Revenue”) reported on the member’s Statement of Income included in the audited financial statements filed pursuant to Commission Rule 17a-5(d), with the total revenue amount reported on line 1 of the member’s Form SIPC-7 (“SIPC-7 Line 1 Revenue”) for the same fiscal year.

³ To specify, the AUP Report must cover all adjustments, including those reported on any of lines 2a-g, 4a-h, and 5a-b of a member’s Form SIPC-7 (“Adjustment Amount”). The aggregate amounts of each individual adjustment should be reflected in the member’s supporting schedules and working papers (“Support Amounts”) that correspond to each Adjustment Amount.