

July 6, 2018

Office of the Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090

File Reference: File Number S7-10-18

Dear Mr. Fields:

The Audit Committee of the MFS Funds Board appreciates the opportunity to comment on the Securities and Exchange Commission's ("SEC's" or "the Commission's") Proposed Rule on *Auditor Independence with Respect to Certain Loans or Debtor-Creditor Relationships* (the "Proposed Rule"). We understand that the amendments in the Proposed Rule would apply not only to registered investment companies, but also more broadly to operating companies and registered broker-dealers; however, our comments relate to the Proposed Rule's application to the SEC registered investment companies we oversee ("MFS Funds").

Background on MFS and the Impact of Rule 2-01 of Regulation S-X ("Loan Rule")

MFS Investment Management ("MFS") is a global asset management firm providing investment management services to clients including 135 registered investment funds (the "MFS Funds") which include open-end and closed-end management companies, some of which serve as underlying investments for variable insurance products, that in total represent approximately \$288 billion in assets. MFS and its predecessor organizations have been registered as an investment adviser under the Investment Advisers Act of 1940 (the "Advisers Act") since 1969. MFS is a majority owned subsidiary of Sun Life Canada (U.S.) Financial Services Holdings, Inc., which in turn is an indirect majority owned subsidiary of Sun Life Financial, Inc. (a diversified financial services organization). MFS has been a subsidiary of Sun Life since 1982. As of May 31, 2018, MFS managed approximately \$476 billion in assets.

As is the case with most investment companies, the MFS Funds have no employees of their own, other than one Independent Senior Officer, and their operations are carried out by various affiliated entities (e.g., the investment adviser, the administrator, the transfer agent and the distributor) and unaffiliated service providers (e.g., the custodian and the fund accounting agent) under the oversight of the MFS Funds Board of Trustees. MFS also manages collective investment schemes domiciled in Canada, Luxembourg, and Australia as well as unregistered U.S. products as part of the MFS Funds' investment company complex.

The MFS Funds currently engage two of the "Big Four" public accounting firms, where each firm performs audits on an ongoing basis for a number of the MFS Funds and other collective investment schemes managed by MFS. Given the growing presence of omnibus record holders in the mutual fund industry and the scope of the MFS Funds' investment company complex, the Loan Rule as currently constituted and interpreted has created an administrative burden for our MFS Funds Audit Committee, Fund counsel, and MFS management. With respect to the technical breaches of the Loan Rule that have been reported to us to date, the accounting firms have consistently concluded that their objectivity has not been impaired based on debtor/creditor relationships that have existed, and we have agreed with those conclusions, but significant time has been consumed by all parties testing, documenting, and evaluating fact patterns that do not for all practical purposes impair auditor independence and objectivity. In all cases, lenders to the accounting firm or lenders to the accounting firm's covered persons that own 10% or more of a fund's shares have not had the ability to influence the day-to-day operations of that fund let alone other funds within MFS Funds' investment company complex. Moreover, with respect to technical

breaches involving covered persons of the accounting firm, it was reported to us that the covered persons were not aware that their lender held shares in the fund(s) under audit, and the accounting firm's personnel responsible for managing the relationship with their lender had no interaction with the audit engagement team. In light of the time and cost associated with the review and evaluation of these technical breaches, we believe that there is a need for reform in this area in order to make the Loan Rule more practical in the context of registered investment companies.

Overview of the Proposed Rule

The Proposed Rule would amend Rule 2-01 of Regulation S-X to address many of the compliance and efficiency challenges that accounting firms and their clients face with respect to applying the Loan Rule by

- removing the focus on record ownership in favor of beneficial ownership;
- introducing a "significant influence" test in place of the existing 10% bright-line ownership test;
- incorporating a "known through reasonable inquiry" standard; and,
- modifying the "audit client" definition with respect to funds to exclude other funds that are considered affiliates of the audit client.

The Audit Committee of the MFS Funds Board understands that the various provisions of the Proposed Rule are collectively intended to more effectively identify those debtor-creditor relationships that could adversely impact an accounting firm's ability to exercise objectivity and impartial judgement. Consistent with the industry views expressed by the Investment Company Institute (ICI), we are encouraged by the Commission's efforts to make the Loan Rule less burdensome and more effective at identifying situations where an auditor's independence might be impaired in practice, and support the provisions of the Proposed Rule.

Although we understand and appreciate the concept of "significant influence", we are particularly interested in how the accounting firms will apply this concept. The accounting firms will need to establish criteria that should be used to identify situations where significant influence may exist. We believe that fund directors need transparency with respect to these criteria and those situations that are "close calls" or that involve members of the audit engagement team, even if the auditors conclude that the updated Loan Rule has not been breached. For example, a requirement that the criteria be communicated to the Audit Committee annually, and that "close calls" be communicated promptly, would facilitate these goals. All audit clients will certainly benefit from an approach that is clear and consistent across accounting firms to avoid inconsistent application and uncertainty.

Conclusion

The Audit Committee of the MFS Funds Board is grateful for the opportunity to provide comments on the Commission's Proposed Rule. We support the SEC's goals of more effectively identifying those debtor-creditor relationships that could adversely impact an accounting firm's ability to exercise objectivity and impartial judgement. Also, we appreciate the Commission's responsiveness in addressing many of the practical challenges faced by our industry in complying with the Loan Rule and its timely efforts to codify the guidance provided in its related no-action letter.

Should you have any questions about our comments regarding the Proposed Rule, please feel free to contact Steven Buller at [REDACTED].

Sincerely,



Steven E. Buller
Chairman
MFS Funds Board Audit Committee