

July 6, 2018

Mr. Brent J. Fields, Secretary  
U.S. Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-1090

By email: [rule-comments@sec.gov](mailto:rule-comments@sec.gov)

**Re: File No. S7-10-18: Auditor Independence with Respect to Certain Loans or Debtor-Creditor Relationships**

Dear Mr. Fields:

We appreciate the opportunity to issue this brief response to commend the Securities and Exchange Commission's (the Commission or the SEC) and its staff for identifying, analyzing, articulating and conceiving solutions for auditor independence issues/compliance challenges inherent in Rule 2-01(c)(1)(ii)(A) (the Loan Provision) in connection with this most practical and reasonable recent proposal (the Proposal) dated May 2, 2018, that is entitled *Auditor Independence with Respect to Certain Loans or Debtor-Creditor Relationships* (Release Nos. 33-10491 and 34-83157).

For your information, Piercy Bowler Taylor and Kern, CPAs, is a regional audit firm with only a few audit clients that are relatively small issuers. We have, in fact, never in our history encountered an independence issue involving compliance with the Loan Provision; nevertheless, we can readily appreciate the compliance difficulties outlined in the Proposal. We fully concur with and support the broad objective of the Proposal set forth in Section IIA thereof where it is described as adopting amendments to Regulation S-X that "would effectively identify those debtor-creditor relationships that could impair an auditor's objectivity and impartiality, yet would not include certain extended relationships that are unlikely to present threats to objectivity or impartiality." To achieve that broad objective, we also concur with each of the four more specific bulleted objectives listed in that paragraph and discussed in detail in Sections IIB-E.

Since we have expressed our general support for the actions proposed, and our appreciation for the soundness and completeness of the analysis provided, by the Commission and its staff, and since we are a relatively small firm with insufficient resources to enable us to address in detail, in the time allotted for comments, all of the specific questions presented in Section III of the Proposal, we have chosen to respond to only one as follows in the next two paragraphs.

We question the basis for an unsupported statement contained in this Section IIIA of the Proposal that reads, "We believe that adding a materiality qualifier to the proposed significant influence test is unnecessary to achieve our goal of effectively and appropriately identifying lending relationships that could pose threats to auditor independence."

We recognize that materiality is an evasive, ill-defined concept when used in relation to possible independence impairments but, nevertheless, we believe that some guidance to auditors in this regard would be highly beneficial. Certainly, the guidance already in the Proposal that refers to that provided

by the FASB in ASC 323 is useful and appropriate, as written, for assessing the lender's ability to exercise significant influence over the audit client. But as suggested elsewhere in the Proposal, it is our view that once the ability to exercise significant influence is judged to be present, it is also necessary to evaluate whether the incentive to do so is significant. Accordingly, we believe specific guidance is needed to help an auditor assess the materiality to a lender of its beneficial ownership in the audit client's equity securities (not likely to be material in most cases for institutional lenders) to enable the auditor to assess the lender's incentive to exercise influence over the issuer. On the other hand, unless the investment is material to the lender's financial statements, we do not see how a quantitative measure of materiality of the lender's investment to the financial statements of an issuer would likely be relevant for assessing the lender's incentive to influence the issuer.

The foregoing notwithstanding, we would not be in favor of any bright-line or other rigid materiality guidance that would effectively preclude or unduly restrict the exercise of professional judgment.

We acknowledge that we are aware that our comments will be posted on the Commission's website and available for public viewing and printing in the Commission's Public Reference Room.

Questions about these comments may be addressed to the undersigned at [REDACTED] or communicated by telephone at [REDACTED] or [REDACTED].

Very truly yours,



Howard B. Levy, Principal and  
Director, Technical Services