

United States House of Representatives
Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

November 8, 2018

The Honorable Jay Clayton
Chairman
U.S. Securities and Exchange Commission
100 F Street NE
Washington, DC 20549

Dear Chairman Clayton,

Following up on your recent appearance before the House Financial Services Committee on June 21, 2018, we are writing to reiterate our support of the Securities and Exchange Commission's (SEC) proposal to amend Rule 2-01(c)(1)(ii)(A) of Regulation S-X, commonly referred to as the "Loan Rule." The proposed amendment to this rule would clarify what has for a long time been a source of ambiguity and uncertainty for both investors and issuers.

The proposed Loan Rule amendment also demonstrates, more broadly, that the SEC can both update and clarify Rule 2-01 of Regulation S-X and still respect the basic yet important principles of auditor independence. Auditor independence is one of the critical assurances of the U.S. capital markets. It allows the investing public to place confidence in the audited financial information that issuers provide to their shareholders, and helps issuers to access the markets for initial public offerings, raise capital to innovate and grow, and contribute to American prosperity. We encourage the SEC to continue to take a broad approach in evaluating enhancements to this rule so as to make current other aspects of the auditor independence requirements.

For instance, the emergence of new business models — especially those related to investment company complexes (ICCs)¹ that own a number of portfolio companies across different funds — and the increasing use of digital technologies by and among businesses, have altered the application of the auditor independence rule in a way that makes it more difficult for issuers to obtain an independent audit under the rule. This result has unfortunately become a source of uncertainty for the investing public and other market participants. When the full complement of rules with which issuers must comply do not account for either technological innovation or new business models, they can have unintended effects like limiting competition, deterring capital formation, and unnecessarily increasing costs to issuers, without any concomitant increase in investor protection.

In the end, we believe there are several areas where the SEC can enhance and clarify existing rules, and where meaningful steps can be taken to streamline compliance with the auditor

¹ See 17 C.F.R. 210.2-01(f)(14) (defining "investment company complex" for purposes of the auditor independence rule).

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independence rule, without weakening any of the rule's fundamental protections. Thank you for your consideration.

Sincerely,



BILL HUIZENGA
Chairman
Subcommittee on Capital Markets,
Securities, and Investment



CAROLYN MALONEY
Ranking Member
Subcommittee on Capital Markets,
Securities, and Investment