



September 8, 2015

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

File Reference: File Number S7-13-15

Dear Mr. Fields:

MFS Investment Management (MFS), in its capacity as the administrator of certain registered investment companies (the "MFS Funds"), and the Audit Committees of the MFS Funds Boards of Trustees appreciate the opportunity to comment on the Securities and Exchange Commission's ("SEC's" or "the Commission's") Concept Release on *Possible Revisions to Audit Committee Disclosures* (the "Concept Release"). Our comments relate to the Concept Release's application to Securities & Exchange Commission (SEC) registered investment companies as issuers of financial statements.

Background on MFS and the Industry¹

MFS is a global asset management firm providing investment management services to clients including 131 registered investment companies which in total represent approximately \$205 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. At June 30, 2015, MFS managed approximately \$440 billion in assets.

From an industry perspective, U.S. registered investment companies are responsible for the investment of over \$18.2 trillion; open-end mutual funds, which are owned by an estimated 90 million shareholders, represent the majority of those assets. There are roughly 9,300 open-end mutual funds, 600 closed-end funds and 1,400 exchange-traded funds, each of which is subject to an annual audit requirement and oversight by the SEC and the auditors subject to oversight by the Public Company Accounting Oversight Board ("PCAOB"). As is the case with the registered funds for which MFS provides advisory and administrative services (the "MFS Funds"), investment companies typically have no employees of their own and their operations are carried out by various affiliated entities (e.g., the investment adviser, the administrator, the transfer agent and the distributor) and fund officers who are typically employees of the investment adviser/administrator, as well as unaffiliated service providers (e.g., the custodian and the fund accounting agent), all under the oversight of a Board of Trustees.

Overview of the Concept Release

The Concept Release seeks public comment with respect to audit committee reporting requirements, specifically on the audit committee's reporting of its responsibilities for the oversight of the independent auditor, its process for auditor selection and its evaluation of audit firm and audit team qualifications. The current audit committee disclosure requirements are outlined in Item 407 of the SEC's Regulation S-K which was adopted in 1999. Since 1999, the role of the audit committee has undergone a number of changes as a result of the enactment of the Sarbanes-Oxley Act, the enhancement of listing requirements

¹ Industry statistics as of December 31, 2014 per the *2015 Investment Company Industry Fact Book*.

of securities exchanges and PCAOB rule making. Comments gathered from the Concept Release may assist the Commission in better aligning its audit committee disclosure requirements with the changes in rules and regulations that have taken place since 1999.

In the Concept Release the Commission supports the idea that strong corporate governance, including rigorous audit committee oversight of the independent auditor, positively impacts the quality of the audit. Higher quality audits should result in increased investor confidence and, ultimately, in stronger capital markets. The Commission suggests that investors don't fully understand an audit committee's actual responsibilities and that, in order to bridge this gap, investors want more robust communication in this area, including how the audit committee executes its responsibilities, especially with respect to auditor oversight. More detailed audit committee reporting, the Commission posits, would help investors to better evaluate audit committee performance with respect to independent auditor oversight, enabling investors to differentiate between investment opportunities based on the quality of that oversight. The Commission believes that this reporting would help those investors make better decisions on where to invest their money and on how to vote shareholder proposals.

Current Audit Committee Disclosure Requirements

The disclosures required by Item 407 of Regulation S-K must be included in the proxy or information statement relating to a registrant's annual meeting where directors are elected or chosen by written consent. As listed companies, closed-end investment companies are required to hold annual shareholder meetings to elect directors. Open-end investment companies do not typically hold annual shareholder meetings. The required disclosures must satisfy the audit committee's responsibilities to: review and discuss the audited financial statements with management; conduct required communications² with independent auditors; obtain an ISB ¹³ letter from the independent auditors and discuss any independence matters; and, recommend to the board of directors that the audited financial statements be filed with the Commission.

Item 407 also requires disclosure of the composition of the audit committee, including which members are independent; the circumstances surrounding the appointment of any non-independent member; and whether or not there is at least one financial expert serving on the audit committee. The number of audit committee meetings held and the attendance record of members must also be disclosed. Additionally, Item 407 requires disclosure regarding whether or not the committee has a charter and where investors can obtain a copy of that charter, if one exists. The identity of each audit committee member must also be disclosed.

Concept Release Suggests Three Potential Areas for Expanded Disclosure

The Concept Release suggests that investors may benefit from additional audit committee reporting in three areas: (1) its responsibilities for the oversight of the independent auditor; (2) its process for auditor selection; and (3) its evaluation of audit firm and audit team qualifications.

Oversight of the Auditor

With respect to the audit committee's oversight of the independent auditor, the Concept Release questions whether investors would benefit from the audit committee's disclosure of specifics around the independent auditor's communications with the audit committee under AS 16. These disclosures would address the nature, timing, risks, and strategy of the audit as well as any disagreements with management. The Commission also seeks feedback on whether investors would benefit from additional disclosures regarding (i) the nature of the audit committee's discussions with the independent auditor around the results of the public accounting firm's internal quality reviews and PCAOB inspections and (ii) the methods employed by the audit committee in assessing and reinforcing the independent auditor's objectivity and professional skepticism.

² Communications as required by AU sec. 380, *Communications with Audit Committees* (AU 380)

³ Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*

Process for Selecting the Auditor

Regarding the audit committee's independent auditor selection process, the Commission questions whether investors would benefit from the audit committee's disclosure of its process for evaluating the performance and qualifications of the independent auditor; its involvement in approving fees paid to the independent auditor; and, its process around soliciting and awarding audit work under requests for proposal (RFP). The Commission suggests that investors may also be interested in understanding the board of directors' policy (if any) on soliciting investor ratification of the audit committee's annual selection of the independent auditor.

Qualifications of the Audit Firm and Engagement Team

The third potential area for expanded audit committee reporting suggested in the Concept Release relates to the independent public accounting firm's qualifications, and that of the specific engagement team. The Commission seeks feedback on whether investors would benefit from audit committee disclosure of the names, engagement tenure, experience, and professional licensure of certain key engagement team members as well as the disclosure of the names and locations of other public accounting firms and/or third parties that performed audit procedures, including the extent of their involvement. The Commission questions whether audit committees should be required to disclose audit firm tenure and whether or not the audit committee considered tenure in evaluating the auditor's independence and objectivity. Additionally, the Commission suggests that investors may be interested in understanding the level of audit committee involvement in the selection of the engagement partner.

Prevalence of Voluntary Audit Committee Disclosures

The Concept Release cites a recent study of audit committee oversight related disclosures made in the 2014 proxy disclosures of S&P 500 companies. Although there was great variability in the types of voluntary information that those companies included, the study showed that a significant percentage of those companies voluntarily disclosed information beyond what is required. The types of additional information disclosed included: audit firm tenure; the potential impacts of non-audit services on auditor independence; consideration of an audit firm's qualifications with respect to geographic reach and industry expertise; and, the types of criteria used to evaluate audit firms. The study found that a much smaller percentage of the companies voluntarily disclosed items such as the significant issues that the audit committee addressed with the auditor; the audit committee's involvement in the selection of the audit engagement partner; and, the potential connection between audit fees and audit quality. We agree with the Concept Release's suggestion that the notion of voluntary audit committee disclosures may not meet the Commission's goal of increased transparency into how the audit committee conducts auditor oversight, since the issuer may choose what information to include or exclude with the potential that the issuer may intentionally omit detailed disclosure where it desires not to highlight certain information.

Requirements for Auditor Communications with Audit Committees

SEC Regulation S-X Rule 2-07

Under Rule 2-07 the auditor is required to communicate annually certain matters to the audit committee within 90 days prior to the filing of a registrant's audit report with the SEC. Those matters include all critical accounting policies; any alternative treatments with Generally Accepted Accounting Principles (GAAP) for material items; material written communication between the auditor and management; and, with respect to an audit client in an investment company complex, any non-audit services that were not pre-approved by the audit committee.

PCAOB Auditing Standard No. 16

In 2012 the PCAOB released PCAOB Auditing Standard No. 16, *Communications with Audit Committees* ("AS 16") with the intent of enhancing the relevance, timeliness and quality of communications between the independent auditor and the audit committee about significant audit and financial statement matters. AS16 modified and expanded the auditor's communication requirements contained in the then existing

auditing standards (i.e., AU 380⁴) and set forth new requirements for independent auditor communications with the audit committee.

Many of the auditor communications required by Rule 2-07 and AS 16 appear in the Concept Release as potential areas for expanded audit committee disclosures, with the Commission suggesting that investors may benefit from the public disclosure of these required communications between the auditor and the audit committee.

Related PCAOB Proposals

Several of the additional disclosures suggested in the Concept Release are similar to the disclosures called for in two ongoing PCAOB proposals⁵ (the "PCAOB Proposals"), both of which were issued in 2013. Under those proposals, the independent auditor would be required to disclose additional information in its auditor's report including: the name of the engagement partner; information on any other audit firms and/or unaffiliated third parties that assisted with the audit; critical audit matters (i.e., the most difficult, subjective or complex areas of the audit); audit firm tenure; and, the auditor's responsibility for other information included in an entity's annual report filing with the SEC.

Although the disclosures called for in the Concept Release are similar to those included in the PCAOB Proposals, the suggested source (i.e., audit committee versus independent auditor) and placement of the disclosures (i.e., proxy versus auditor's report) as set forth in the Concept Release and the PCAOB Proposals, respectively, would differ. With the comment period on the PCAOB Proposals having ended, next steps, if any, from the PCAOB are awaited. In the interim it appears that the Commission may be responding to feedback received by the PCAOB, and/or the Commission may have concluded that some of the additional information called for in the PCAOB Proposals might more appropriately be disclosed by the issuer (instead of the independent auditor) and in a filing other than an SEC filing that includes audited financial statements.

Are Suggested Additional Disclosures Useful to Investors?

The Concept Release sets forth a multitude of suggested additional audit committee disclosures. Although some investors in listed operating companies may be interested in more disclosure with regard to how the audit committee conducts its responsibilities for the oversight, selection and evaluation of the independent auditor, we believe that this type of information does not drive or meaningfully inform an investment company investor's investment decision and may contribute to disclosure overload.

Audit Committee Disclosure not a Key Driver for Investment Decisions

Surveys conducted by retail financial advisors⁶ (i.e., a proxy for fund investor sentiment) indicate that the key drivers for an investor's decision on whether or not to invest in a fund are:

- a firm's investment philosophy,
- its risk management process,
- the firm's integrity/honesty,
- product performance,
- manager expertise,
- competitive fees, and
- organizational stability.

⁴ AU 380 was superceded by AS 16.

⁵ PCAOB Release No. 2013-009, *Improving Transparency Through Disclosure of Engagement Partner and Certain Other Participants in Audits* issued December 4, 2013 and PCAOB Release No. 2013-005, *Proposed Auditing Standards on the Auditor's Report and the Auditor's Responsibilities Regarding Other Information and Related Amendments* issued August 13, 2013

⁶ Surveys conducted by MFS, NMG Group, Cerulli Associates, Cogent, and Greenwich Research.

Enhanced audit committee reporting is not a key driver in an investor's decision on whether or not to invest in a fund.

Disclosure Overload

As mentioned in the Concept Release, some audit committee members question the need for another substantial layer of audit committee disclosure given the perceived lack of interest in the audit committee disclosures currently being reported. We agree that careful consideration should be given when any new disclosure is contemplated and that only useful, relevant and necessary disclosure should be added, in order to prevent disclosure overload. The concept of disclosure overload is a subject of study by other regulators and standard setters⁷ who are looking to improve the effectiveness of disclosures by decreasing the amount of disclosure investors need to wade through and by focusing on those disclosures that are most important to investors. We wholeheartedly agree with the sentiment that more disclosure is not synonymous with better disclosure, and that the benefits of providing additional disclosure should justify the costs to shareholders of providing that disclosure.

Challenges of Additional Disclosures

Audit Committee (not the Investor) has Responsibility for Auditor Oversight

The Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") gave the audit committee sole responsibility for the appointment, compensation, retention and oversight of the work of an independent auditor. In response to the Sarbanes-Oxley Act's call for a heightened level of audit committee oversight, a number of processes were put in place to monitor independence and to heighten auditor objectivity and professional skepticism.

Within a large mutual fund complex such as ours, the audit committee's oversight of the independent auditor is extremely rigorous as fund year-ends occur by necessity practically every month of the year and fund audit committees meet frequently as a result. With the auditors presenting at almost every one of those meetings, the audit committee members have frequent exposure to audit partners and managers. This frequent contact and the audit committee's review of the audit results (including the related required auditor communications) from the numerous fund year-ends throughout the year, places the audit committee in the position of understanding the entire picture – the entity (including any specific accounting nuances), entity management, the independent audit firm and the qualifications of key audit engagement team members. As a result of its position with respect to the fund complex, we believe that the audit committee is the party best suited to oversee, select and evaluate the performance of the independent auditor. Further, we believe that mandating detailed disclosure on how an audit committee of a fund carries out its responsibilities would not result in meaningful disclosure that is actionable by investors. We also note that the disclosure framework for both closed-end and open-end investment companies is different from the framework applicable to other listed companies. In light of the differing federal regulations applicable to investment companies versus operating companies, the New York Stock Exchange in its listing standards has exempted listed investment companies from certain corporate governance standards applicable to other listed companies. We believe that a similar approach should be used to separate and exempt investment companies with respect to any new audit committee disclosure requirements that apply to operating companies.

Non-Public Information

Certain information that the audit committee considers in performing its oversight of the independent auditor is considered non-public. Should the Commission decide to require the audit committee to disclose non-public information, it could compromise the relationship that the audit committee has with management and with the independent auditor as well as expose the audit committee to liability.

In the Concept Release, the Commission suggests that the current audit committee disclosure requirements under Item 407 of Regulation S-K be updated to reflect changes in the rules for

⁷ For example, the Financial Accounting Standards Board's Disclosure Framework Project and the Independent Accounting Standards Board's Disclosure Overload Survey.

independent auditor communication with audit committees which were previously covered by AU 380 but are covered now by AS 16. When conducting its AS 16 required communications, the independent auditor may discuss information about the audited entity's or its affiliates' or service providers' operations or financial results that is not publicly available (e.g., control deficiencies or uncorrected misstatements). This information, although required to be reported by the independent auditor to the audit committee under AS16, is not sufficiently material to result in a qualified audit opinion and is not required to be disclosed by management based on either management's judgment or the reporting requirements of the entity's regulators. As such, we do not think it appropriate to require audit committees to disclose this non-public information regarding the entity's or its affiliates' or service providers' operations or financial results.

Additionally, when evaluating the performance of the independent auditor, the audit committee generally reviews the results of the auditor's external quality reviews and the audit firm's PCAOB inspection results. In its discussions with the audit committee, the independent auditor may choose to provide information about the firm's PCAOB inspection results beyond what the PCAOB has publicly disclosed. We do not think it appropriate to require audit committees to disclose non-public information regarding the independent auditor's internal quality reviews or the audit firm's PCAOB inspection results. It was the PCAOB's intention to keep private the information included in the non-public section of its inspection reports and to require the audit committee to report that information or to report any non-public information is not appropriate.

Engagement Team Qualifications

The Concept Release questions whether investors would benefit from disclosure of details regarding the audit engagement team, including the name of the engagement partner and names of other key members of the engagement team, their experience, the length of time that they have served in those roles, and the status of their professional licensure. We do not believe that it is the audit committee's responsibility to provide this information. Many of these data elements are already the subject of PCAOB proposals, namely PCAOB Release No. 2013-009⁸ and more recently released PCAOB Release No. 2015-004⁹. If this information is determined to be important to investors, then we suggest that the PCAOB should determine the extent to which and the format in which such disclosure should be provided by the auditor.

Audit Firm Tenure

The Concept Release seeks comment on whether investors would benefit from disclosure of audit firm tenure, including whether the audit committee considered tenure in its evaluation of the auditor's independence and objectivity as well as in its auditor retention decision. Consistent with the comments included in our comment letter submitted to the PCAOB on PCAOB Rulemaking Docket Matter No. 034¹⁰, we do not support the required disclosure of audit firm tenure. Disclosure of audit firm tenure would, we believe, imply that tenure influences audit quality. Despite extensive research on the subject, no conclusive link has been established between auditor tenure and the quality of the audit in terms of auditor independence, objectivity and professional skepticism. It should also be noted that in the context of an investment company complex in which new funds are often launched each year, the tenure disclosure may be confusing to investors as the auditor tenure dates may differ significantly from fund to fund based on each fund's unique inception date. At MFS, for example, we have roughly 130 funds, substantially all of which have a different inception date and, therefore, differing auditor tenures.

Potential to Chill Discussions Between Independent Auditor and Audit Committee

The Concept Release questions whether audit committees should provide additional disclosures on the nature and timing of the required communications that take place between the audit committee and the independent auditor, including any discussions regarding any disagreements between the independent

⁸ PCAOB Release No. 2013-09, *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit* issued December 4, 2013

⁹ PCAOB Release No. 2015-004, *Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form* issued June 30, 2015.

¹⁰ PCAOB Release No. 2013-005, *Proposed Auditing Standards on the Auditor's Report and the Auditor's Responsibilities Regarding Other Information and Related Amendments* issued August 13, 2013.

auditor and entity management. As a matter of practice, more sensitive matters such as any disagreements with management generally would be discussed during the executive session, a segment of the audit committee meeting where management is excused. The auditor executive session is meant to foster open dialogue on issues between the independent auditor and the audit committee, which for the MFS Funds consists entirely of independent trustees, without management influence. It is an opportunity to obtain auditor feedback on potentially sensitive issues (e.g., areas of subjectivity and judgment), management's abilities and any issues or disagreements with management. Conversations during executive session are considered confidential, allowing the parties to freely speak their minds and to ask tough questions. To further ensure the confidentiality of those discussions, meeting minutes generally are not recorded during executive sessions. Should audit committees be required to disclose the details of these discussions, we fear that the parties involved may soften or hold back on their questions and their responses, which would impair the audit committee's ability to do its job of overseeing the audit. As we see it, if entity management is not privy to details of those conversations, we do not believe that an investor should be.

Conclusion

MFS and the MFS Funds Board Audit Committees appreciate the opportunity to provide comments on the Commission's Concept Release. We support the SEC's goals of strengthening corporate governance and enhancing information flow to investors in order to bolster shareholder confidence and promote stronger capital markets. We also support the alignment of the Commission's guidance in S-K and S-X with changes that have occurred in listing requirements and in the PCAOB's auditing standards. However, we do not support the expansion of audit committee reporting outlined in the Concept Release because we do not believe that additional audit committee disclosures would be useful, relevant or necessary for investors in investment companies. Should the Commission decide to move forward with proposing additional audit committee disclosures, we urge the Commission to take a principles-based approach to the disclosures and to steer clear of disclosures that could be misinterpreted by investors as metrics by which the quality of audit committee oversight is judged.

Under a principles-based approach, the audit committee would have the flexibility to determine the best way to disclose the practices it employs for independent auditor oversight. Given the variability of industries and audit committee models, we think that a one-size fits all, rules-based approach to audit committee disclosures is not practical. If a rules-based approach were employed, we believe that the result would be watered-down, boiler-plate disclosure which would not achieve the Commission's goal. Under a principles-based approach, the audit committee would be free to provide those disclosures it deemed most relevant to investors in understanding the audit committee's performance with respect to independent auditor oversight responsibilities.

Mandating the disclosure of audit committee related statistics, such as the number of executive sessions, the number of requests for proposals and the number of firms considered for those requests for proposals, may result in the development of "metrics". We fear that investors in investment companies may incorrectly interpret the significance of those metrics in evaluating the performance of the audit committee in carrying out its oversight function. We caution against requiring these formulaic disclosures as it is not the number of meetings or proposals, but the quality of the discussions during those meetings and the rigor of the request for proposal process, that determines the quality with which the audit committee conducts its oversight function.

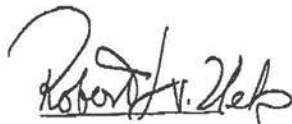
Finally, we urge the Commission to consider the regulatory framework applicable to investment companies and differences between the disclosure framework applicable to investment companies and the framework applicable to operating companies. If the Commission decides to move forward with these initiatives, we urge the Commission to consider exempting registered investment companies from these requirements.

Should you have any questions about our comments regarding the Concept Release, please feel free to call David DiLorenzo at 617-954-5000.

Sincerely,

A handwritten signature in black ink, appearing to read "David DiLorenzo".

David DiLorenzo
Fund Treasurer
Senior Vice President
MFS Investment Management

A handwritten signature in black ink, appearing to read "Robert W. Uek".

Robert W. Uek
Chairman
MFS Funds Board Audit Committee