

March 16, 2020

Ms. Vanessa Countryman, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

**Re: SEC File Number S7-26-19
Amendments to Rule 2-01, Qualifications of Accountants**

Submitted via rule-comments@sec.gov

Dear Ms. Countryman:

This letter is being submitted by Financial Executives International's (FEI) Committee on Corporate Reporting (CCR) in response to the Securities and Exchange Commission's (SEC or "the Commission") *Amendments to Rule 2-01, Qualifications of Accountants* ("the amendments" or "the Proposal" or "the Proposed Rule").

FEI is a leading international organization of more than 10,000 members, including Chief Financial Officers, Controllers, Treasurers, Tax Executives, and other senior-level financial executives. The Committee on Corporate Reporting (CCR) is a technical committee of FEI made up of 45 Chief Accounting Officers and Corporate Controllers from Fortune 100 and other large public companies, representing approximately \$10.8 trillion in market capitalization. CCR reviews and responds to pronouncements, proposed rules and regulations, pending legislation, and other documents issued by domestic and international regulators and organizations such as the SEC, PCAOB, and FASB.

This letter represents the views of CCR and not necessarily the views of FEI or its members individually.

Executive Summary

CCR appreciates the Commission's efforts to update auditor independence requirements in response to public feedback and comments from stakeholders. High quality, independent audits are an essential component of the U.S. capital markets. We support independence rules which require auditors to exercise impartiality and objectivity with respect to all issues that arise throughout the course of an audit engagement, as these rules serve to protect investors and the integrity of financial statements.

CCR is supportive of the amendments and believes that they strike the appropriate balance of permitting relationships that are unlikely to impair objectivity and impartiality, while more effectively identifying actual threats to independence. Below we have included feedback and recommendations related to the amendments.

Amendments to Affiliate of the Audit Client

We support the amendment to Rule 2-01(f)(4)(i) within the definition of “affiliate of the audit client” to include a materiality qualifier with respect to operating companies under common control. We believe this amendment appropriately focuses the independence analysis on sister entities that are material to the controlling entity and will reduce the burden on companies and auditors regarding independence determinations when a sister entity is immaterial. We agree that audit firms providing services to or having relationships with sister entities not material to the controlling entity does not impair an audit firm’s objectivity or impartiality.

Amendments to Audit and Professional Engagement Period

We support the proposed amendment to apply the one year look back provision to all first-time filers. The current rules create an unnecessary economic disadvantage for domestic first-time issuers, and we don’t see a compelling reason for domestic issuers and foreign private issuers to have different lookback periods. We believe the proposed change supports the Commission’s goal to facilitate capital formation by reducing the cost for domestic first-time filers contemplating an IPO.

Amendments to Loans or Debtor-Creditor Relationships

We believe that the proposed amendments to the rules regarding loans or debtor-creditor relationships in Rule 2-01(c)(1)(ii)(A) would appropriately focus the independence analysis on situations that impair the auditor’s objectivity and impartiality. As such, we support the proposed amendments to the student loan exception, mortgage loan exception, and credit card rule.

With regard to the mortgage loan clarification, we believe examples would be helpful for assessing independence and thus suggest that the Commission provide examples of approved types of mortgage loans such as home equity lines of credit or home improvement loans.

We also suggest that the Commission consider amending Rule 2-01 to address deposit balances in online/electronic payment applications. Currently, rule 2-01(c)(1)(ii)(B) prohibits Covered Persons, and their dependents, from holding a balance of any amount in a digital payment application because it is not FDIC insured. As a result, routine immaterial matters create technical independence violations that must be discussed with the Audit Committee. Similar to the \$10,000 consumer loan rule, we do not believe a balance of less than \$10,000 on a payment application impairs the objectivity or impartiality of an auditor. Therefore, we recommend that the SEC amend rule 2-01(c)(1)(ii)(B) to include a provision that an auditor’s independence is not impaired if they have a balance less than \$10,000 in a digital payment application.

Additionally, we suggest the Commission consider amending Rule 2-01 so that deposit overdraft protection in the normal course of business is not considered to impair an auditor’s objectivity and impartiality. While it has been

viewed as a prohibited potential uncollateralized loan, we believe that overdraft protection (and the use of overdraft protection in the normal course of business) should be considered as part of the \$10,000 consumer loan exemption.

Amendments to the Business Relationships Rule

We agree that the term “substantial stockholders” should be replaced with the phrase “beneficial owners (known through reasonable inquiry) of the audit client’s equity securities where such beneficial owner has significant influence over the audit client” in Rule 2-01(c)(3). We believe that significant influence is a more appropriate framework to identify relationships that impair an auditor’s objectivity and impartiality and that the proposed amendments provide better terminology because the term “substantial stockholder” is not currently defined in Regulation S-X. However, we acknowledge that determining whether significant influence exists still requires judgment. Thus, if adopted, we recommend that the Commission align with the final amendments to the Loan Rule and provide implementation considerations to aid in determining whether an entity has significant influence.

Amendments for Inadvertent Violations for Mergers and Acquisitions

Mergers and acquisitions is an area that greatly impacts auditor independence and has created many issues for preparers and auditors such as the termination of important and costly services midstream and even the delay of transactions. We appreciate the Commission’s efforts to alleviate the burden on preparers and auditors that may arise due to the application of independence rules in these situations. We believe that allowing a reasonable period of time to correct any independence violations that arise as a result of a merger or acquisition will ease many of the issues that have been experienced. We also suggest that the Commission clarify that this amendment may be applied to potential violations found after the transaction has closed. It can be difficult to identify all potential violations before a transaction closing date. We believe that it would not impair auditor objectivity or impartiality to allow for companies and their auditors to correct a potential violation within a reasonable period of time, even after a transaction has closed.

Hiring Audit Firm Employees

While it is not part of the current proposed amendments, we suggest the Commission consider evaluating the current independence rules related to hiring audit firm employees. While we agree there is a need for some level of restriction for audit team members, we find that the application of the current independence rules related to hiring audit firm employees can be unnecessarily restrictive. For example, some audit firms have expressed concerns to CCR members about hiring an audit firm employee, not on the CCR company audit team, solely because the employee worked on a software program that the audit client may use (e.g., disclosure checklist). We do not believe that a situation like this would impact auditor objectivity and impartiality. We believe this is an area where clarification can improve current practice while still limiting company and audit firm legal exposures.

Therefore, we recommend that the Commission consider how these rules are being applied in practice and assess whether clarifications or changes could be made to the current rules to limit the restrictions that do not impair auditor objectivity and impartiality.

Conclusion

CCR appreciates the Commission's effort to improve its rules around auditor independence. We are supportive of the proposed amendments and believe that they will better focus independence analysis on the relationships that are more likely to impair an auditor's objectivity or impartiality. We stand ready to assist the SEC in this effort.

Sincerely,

Prat Bhatt

Prat Bhatt
Chairman, Committee on Corporate Reporting
Financial Executives International