BY ELECTRONIC TRANSMISSION

April 30, 2019

Brent J. Fields
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Re: **SEC File No. S7-27-18: SBIA Comments on the Proposed Rule regarding Fund of Funds Arrangements**

Dear Mr. Fields:

The Small Business Investor Alliance ("***SBIA***") appreciates the opportunity to comment on the Securities and Exchange Commission's ("***SEC***") proposed rule and rule amendments relating to fund of funds arrangements (the "***Proposed Rule***").[1]

This letter, which focuses on the Proposed Rule's effects on business development companies ("BDCs"), their investors and the small and mid-size U.S. businesses for which BDCs serve as a critical source of financing, makes the following recommendations relating to the Proposed Rule and the request for comments contained in the Proposing Release:

- The SEC should exempt BDCs from the definition of "Acquired Fund" under Forms N-1A, N-2, N-3, N-4 and N-6 (the "***Forms***"); and

- The SEC should revise the three-tiered fund of funds limitation condition in the Proposed Rule to permit BDCs to invest in private funds.

SBIA, with more than 240 members, is a national association that develops, supports, and advocates on behalf of policies that benefit investment funds that finance small and mid-size domestic businesses in the middle market and lower middle market, as well as the investors that provide capital to these funds.

[1] SEC, *Fund of Funds*, Rel. No. 33-10590 (Dec. 19, 2018) (the "***Proposing Release***").

Our membership includes nearly 50 funds electing business development company ("***BDC***") status under the Investment Company Act of 1940 (the "***1940 Act***") and their external managers, and the investors that invest in these funds, including, but not limited to, banks, family offices and funds of funds.[2]

Background on BDCs

BDCs were established in 1980 pursuant to the Small Business Investment Incentive Act ("***SBIIA***"), which was enacted by Congress to promote access to financing for small- and middle-sized U.S. businesses.[3] Congress passed the SBIIA to address the "slowing of the flow of capital" to that segment of the market, which has proven vital to the U.S. economy "in terms of innovation, productivity, increased competition and the jobs they create."[4] In furtherance of this mission, BDCs are required to invest 70% of their assets in certain "qualifying assets," which generally consist of investments in U.S. operating companies that are privately owned or that have a market capitalization of less than $250 million. BDCs are also required to make available "significant managerial assistance" to the companies in which they invest.[5]

After the passage of the SBIIA, changes in banking regulation – including the repeal of the Glass-Steagall Act of 1933 (which led to a wave of bank consolidations), heightened capital and liquidity requirements imposed by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, and the U.S. implementation of the international Basel III Accord (which limits banks' ability to hold unrated debt) – caused banks to significantly curtail lending, particularly to smaller and less-established companies that lack credit ratings or are otherwise subject to greater credit risk. BDCs have helped to fill this void and have emerged as a vital source of financing for small- and mid-sized U.S. businesses. In recognition of this fact, Congress recently passed the Small Business Credit Availability Act of 2018 (the "***SBCAA***"), which facilitated the ability of BDCs to raise capital by engaging in additional borrowing and accessing certain streamlined securities registration rules. As of the date of this letter, the BDC industry was comprised of over 80 BDCs with over $100 billion in combined assets.

BDCs also provide a number of important benefits to investors. For example:

- BDCs generally offer a meaningful and consistent source of income to their shareholders despite the current low interest rate environment. This feature is particularly important to income-seeking investors such as pension plans and retirees.

[2] Appendix One to this comment letter presents links to materials, including statements from members of Congress and final language in H.R. 6258, the House-passed fiscal year 2019 Financial Services and General Government appropriations bill, which complement SBIA's position that the SEC should use its existing authority to make necessary regulatory or guidance changes to limit the adverse impacts of the AFFE rule on BDCs.

[3] Small Business Investment Incentive Act of 1980, Pub. L. No. 96-477, 94 Stat. 2275 (1980) (codified at scattered sections of the United States Code).

[4] H.R. Rep. No. 1341, 96th Cong., 2d Sess. (1980).

[5] The requirement to "make available significant managerial assistance" is only applicable to portfolio companies in a BDC's 70% "qualifying asset" bucket.

- BDCs allow smaller investors, including retail investors, to access a growth-oriented asset class that is otherwise accessible only to wealthy individuals and large institutions (*e.g.* through investments in private equity funds, hedge funds, or direct investments).

- Exchange-traded BDCs provide exposure to an illiquid asset class in a liquid format.

- BDCs are subject to various legal and regulatory requirements that enhance transparency and mitigate risk of loss and shareholder dilution, including, among others, restrictions on transactions with affiliates, fair valuation requirements, auditing and disclosure requirements, and governance requirements.

I. Acquired Fund Fees and Expenses ("AFFE") Disclosure

For the reasons stated below, we strongly believe that the SEC should exempt BDCs from the definition of "Acquired Fund" under the Forms.

Background on AFFE Rule and its Impact on BDCs

In 2006, the SEC adopted form amendments that require a registered fund or BDC to disclose as an additional line item in its prospectus fee table its *pro rata* share of the operating expenses paid by underlying funds in which the acquiring fund invests (the "***AFFE requirements***" or "***AFFE rule***"). Consequently, this line item expense is added to the acquiring fund's other operating expenses and increases the acquiring fund's overall operating expense ratio, *i.e.* the "bottom line" expense ratio shown in the prospectus fee table. The adopting release states that by showing investors the indirect expenses associated with underlying fund investments the AFFE requirements are designed to provide investors with (i) "a better understanding of the actual costs of investing in a fund that invests in other funds" and (ii) "the means to compare directly the costs of investing in alternative funds of funds, or the costs of investing in a fund of funds to a more traditional fund."[6]

BDCs hold a unique place among registered funds because they act as an operating company within a closed-end fund structure. BDCs tend to have higher operating expenses than other types of investment companies due to their more labor-intensive investment processes and hands-on management of their portfolio companies. BDCs thus have a disproportionate impact on an acquiring fund's AFFE line item, and, therefore, its operating expense ratio. The fee table in a recent prospectus for the Van Eck Market Vectors BDC Income ETF ("***BIZD***"), an exchange-traded fund ("***ETF***") that tracks an index comprised of BDCs, illustrates how the AFFE line item can inflate a fund's expense ratio.[7] The prospectus fee table discloses that the fund's total annual operating expenses, i.e., the expense ratio, is 9.41% of average net assets during the fund's most recent fiscal year. The AFFE line item accounts for <u>*nine percentage points*</u> of this amount. The true cost of operating BIZD, however, is only 0.41%. The "Expense Example" that follows the fee table shows that the operating expenses for one year of a $10,000 investment in BIZD would be $920. In fact, absent the impact of the AFFE line item, the true amount that should be reported would be less than $50.

[6] SEC, *Funds of Funds Investments*, Rel. 33-8713 (Jun. 20, 2006) ("***Funds of Funds Adopting Release***") at 41.

[7] Van Eck Vectors ETF Trust, Post-Effective Amendment No. 2,613, filed August 24, 2018, available at https://www.sec.gov/Archives/edgar/data/1137360/000093041318002696/c91815_485bpos.htm.

Most mutual funds, ETFs, and other registered investment companies (aside from BDC-focused ETFs like the one noted above) have stopped investing and avoided investing in BDCs since the AFFE requirements were adopted. In response to the AFFE requirements, yielding to pressure from the fund industry, most of the major index providers in 2014 – including S&P and Russell – dropped BDCs from their families of indices. In announcing this policy change, Russell cited the "distortive impact" that the AFFE requirements have had on fund expense ratios.[8]

It is misleading to require an acquiring fund to reflect the expenses of BDCs in which it invests in its prospectus fee table.

As it relates to BDCs, the AFFE requirements in part undermine the SEC's stated goals. Instead of providing "a better understanding of the actual costs of investing in a fund that invests in other funds", the existing AFFE requirements create the misperception that the acquiring fund's expenses are higher than they actually are and imply that the acquiring fund is engaged in the same operating activities as the acquired BDC. Requiring registered funds to combine their direct expenses with indirect expenses attributable to investments in underlying BDCs in the "total annual fund operating expenses" line item is thus at odds with the SEC's mission to provide investors with an improved understanding of the "actual" costs of investing.

The AFFE requirements distort the acquiring fund's disclosed expense ratio by suggesting that the BDC's expenses are operating expenses of the acquiring fund and therefore constitute additional expenses incurred by investors. In this regard, many large fund complexes have sought to alleviate this confusion in narrative disclosure in the acquiring fund's prospectus. For example, the Vanguard Explorer Fund discloses the following in its prospectus:

> ". . . . The expense ratio of a fund that holds a BDC will thus overstate what the fund actually spends on portfolio management, administrative services, and other shareholder services by an amount equal to these Acquired Fund Fees and Expenses. The Acquired Fund Fees and Expenses are not included in a fund's financial statements, which provide a clearer picture of a fund's actual operating expenses."

The Hartford Funds fund family similarly includes the following disclosure in its prospectuses:

> "Business development company expenses are similar to the expenses paid by any operating company held by a Fund. They are not direct costs paid by Fund shareholders and are not used to calculate a Fund's net asset value. They have no impact on the costs associated with Fund operations."

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[8] Barron's, *Russell Sets Terms for Booting BDCs: Should You Buy the Dip?* (Mar. 4, 2014) (Brendan Conway), available at https://www.barrons.com/articles/russell-sets-terms-for-booting-bdcs-should-you-buy-the-dip-1393960960. By eliminating BDCs from the Russell 2000 Index, Russell index funds with disclosed expense ratios from 20 to 30 basis points could reduce the expense ratio disclosed in their prospectus fee tables by 5 to 7 basis points. Wells Fargo Securities Equity Research, *The 2Q18 BDC Scorecard* (Jan. 18, 2017) ("***2Q18 BDC Scorecard***"). The disclosed expense ratio reduction, of course, would have no effect on fund performance. [9] SEC Division of Investment Management, *Staff Responses to Questions Regarding Disclosure of Fund of Funds Expenses* (May 23, 2007), available at https://www.sec.gov/divisions/investment/guidance/fundfundfaq.htm.

As discussed further below, most fund groups have nonetheless concluded that narrative disclosure – no matter how prominent – is unlikely to overcome the competitive disadvantage associated with an overstated fund expense ratio and generally seek to limit investments in underlying BDCs.

The SEC staff issued guidance in 2007 (in the form of answers to a series of frequently asked questions) that excluded from the definition of *acquired fund* under the AFFE rule "structured finance vehicles, collateralized debt obligations, or other entities not *traditionally considered pooled investment vehicles* (emphasis added)."[9] We believe that a BDC should similarly be regarded as a non-traditional pooled investment vehicle. In our view, a traditional pooled investment vehicle is an investment vehicle that generally acts as a *passive* owner of a basket of equity or debt securities or other financial instruments. The traditional investment vehicle's success or failure is dictated by the business decisions of the portfolio companies' management teams, with which the vehicle's adviser has little or no involvement. In contrast, BDCs often actively negotiate investment terms with the portfolio companies to which they provide capital, and Congress has imposed on BDCs a statutory duty to make available significant managerial assistance to their portfolio companies.[10] Many BDCs provide portfolio companies with critical managerial expertise. BDCs and their advisers often participate in corporate governance, provide input on strategic transactions and other key corporate decisions, and participate in the negotiation of sales and restructuring agreements. BDCs have higher operating expenses than traditional mutual funds and ETFs, in part, due to this very engagement in the negotiation of investment terms and in the affairs of their portfolio companies. In recognition of this "hybrid structure," the 1940 Act allows a BDC significantly more operating flexibility than other investment companies regulated under the 1940 Act.[11]

We also note that there is precedent for exempting vehicles similar to BDCs from the scope of the AFFE rule. For example, a BDC is similar to a mortgage real estate investment trust ("***REIT***"), which is not subject to the AFFE requirements because it is excluded from the definition of "investment company" pursuant to Section 3(c)(5) (rather than Section 3(c)(1) or 3(c)(7)) of the 1940 Act. Similar to BDCs, REITs participate in the management or operation of a portfolio of real estate properties and mortgages. BDCs and REITs both distribute income to investors on a pass-through basis, share similar expense structures and are often accepted in similar distribution channels. Notably, REITs remain constituents of many of the major market indices, including indices sponsored by MSCI, S&P, and Russell.

The AFFE requirements have disproportionately harmed BDCs

The decision by the index providers to drop BDCs as index constituents has had a severe negative impact on the BDC industry. One direct result is that passively-managed mutual funds and ETFs, which are designed to track the performance of these market indices, are now effectively prohibited from making

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[9] SEC Division of Investment Management, *Staff Responses to Questions Regarding Disclosure of Fund of Funds Expenses* (May 23, 2007), available at https://www.sec.gov/divisions/investment/guidance/fundfundfaq.htm.

[10] *See* Section 2(a)(48) of the 1940 Act.

[11] For example, Section 17(a) and Section 17(d) generally prohibit any affiliated person of a registered (non-BDC) fund, or affiliated persons of the affiliated person, from engaging in certain transactions with that registered fund, including on a principal or joint basis. The 1940 Act's BDC provisions generally track Section 17 but treat transactions with close affiliated persons differently from transactions with more remote affiliated persons. *Cf.* Sections 57(a), (b) and (c) to Sections 57(d), (e) and (f). In addition, Section 57 of the 1940 Act and Rule 57b-1 thereunder allows a BDC to engage in transactions with controlled portfolio companies that the 1940 Act otherwise prohibits.

investments in BDCs. The shift in assets from actively-managed to passively-managed funds has compounded this problem and drained a large portion of the pool of equity capital potentially available to BDCs. SEC Commissioner Robert J. Jackson Jr. has observed that a company's inclusion in a prominent market index bestows significant economic benefits: "The decision to include a company in the S&P 500, for example, results in a reallocation of billions of dollars of investors' money." He also observed that the converse is true: "The average company added to the S&P 500 gains value; when it's removed, its share price drops as index funds sell their holdings."[12]

The removal of BDCs from the major indices also took away a key incentive for actively-managed mutual funds to continue investing in BDCs. Funds reasonably concluded that the costs of an overstated operating expense ratio (in terms of lost distribution opportunities) were too great. In the past few years these concerns have intensified. The mutual fund market has experienced extreme cost competition due to the rise in popularity of low-cost index funds and ETFs and structural changes spurred by the Department of Labor's 2016 investment advice fiduciary rule (which has since been vacated by the federal courts). A registered fund's independent research coverage, third-party rankings, and prospects of being approved on distribution platforms are substantially influenced by its overall operating expense ratio. In an environment where a single basis point can make a difference, it is little surprise that registered fund managers have largely shunned BDCs.

The systematic reduction in investments from mutual funds and ETFs has reduced institutional ownership of BDC shares. By one measure, institutional ownership decreased by around 25 percent from 2013 to 2014, when BDCs were removed from the major indices.[13] This dramatic shift in shareholder demographics has had a deleterious effect on BDC governance. Institutional shareholders are significantly more likely to participate in shareholder meetings than retail shareholders.[14] In fact, investment advisers – who no doubt understand the BDC industry the best – are subject to a fiduciary obligation to vote on BDC proposals in the best interests of the funds that they manage.

"Soft power," wielded through the promise of a large inflow or the threat of sales, also helps to promote industry best practices. A highly-regarded (former) research analyst in the BDC industry has observed that: "Large institutional investors are often much better [than retail investors] about actively vetting corporate/board proposals."[15] A study conducted by the same analyst examining the shareholder voting patterns for BDCs with varying proportions of institutional ownership revealed that BDCs that suffered the largest decline in institutional ownership post-2014 were those that "likely need institutional policing the most" (*i.e.*, due to poor performance or fund policies that are deemed harmful to shareholders).[16] Of

[12] The New York Times, *What's Really in Your Index Fund?* (Feb. 18, 2019) (Robert J. Jackson Jr. and Steven Davidoff Solomon), available at https://www.nytimes.com/2019/02/18/opinion/index-fund.html.

[13] 2Q18 BDC Scorecard. *See also* Raymond James, BDC Ownership Percentage by Investor Type (April 2019). The market cap weighted average of BDC ownership by institutional investors plunged by approximately one-quarter year-over-year between the end of Q413 (42.2%) and Q414 (31.7%). This percentage decline increased to approximately 35 percent through Q418 (27.6%). (*unpublished report with data sourced from FactSet; institutional holdings for December 31, 2018, and December 31, 2015, excluding holdings from private banks/wealth management firms, brokers and investment banks; and insider holdings.*)

[14] Bock, O'Shea and Mazzoli, *New SEC Leadership Announced and Hopefully A Fresh Take on an Old Rule*, Equity Research (Wells Fargo Securities, LLC) (Sept. 7, 2017) at Exhibit 13 – BDC Voter Participation Rates (as of June 30, 2017).

[15] 2Q18 BDC Scorecard, 18.

[16] Block, et al., *supra* note 13.

course, the benefits stemming from an investing fund's participation in BDC governance matters also inure to such BDC's less sophisticated fellow shareholders.

The decline in investments in BDCs by mutual funds and ETFs also harms investors by suppressing the liquidity and market depth of BDC shares. Notably, the average trading volume of BDC shares has plummeted by nearly 50 percent since 2014.[17] This reduction in market activity has also likely contributed to the lack of independent third-party research coverage for BDCs.

The AFFE requirements impede BDCs' ability to fulfill their statutory mandate.

Exempting BDCs from the AFFE Rule should result in growth in the size and number of BDCs and also translate into improved access to financing and better terms for borrowers. Congress has recognized that, by limiting inflows into BDCs, the AFFE requirements have had the adverse effect of stifling capital formation in the U.S. middle markets. In its reports on the past three Financial Services and General Government Appropriations bills, the House Committee on Appropriations called on the SEC to take action to mitigate the "unnecessary," "unintended," and "harmful" consequences imposed on BDCs by the AFFE disclosure requirements.[18] In addition, during a recent hearing of the Senate Banking, Housing, and Urban Affairs Committee entitled "Legislative Proposals on Capital Formation and Corporate Governance," Committee member and Pennsylvania Senator Pat Toomey observed that "BDCs have become a really important source of capital for small and growing companies" and that the "application of the SEC's [AFFE requirements] has a particularly adverse impact on BDCs . . . ."[19] He also called the AFFE requirements "inappropriate," noting that a BDC's market price already reflects its fees.[20] At the same hearing, a representative from the U.S. Chamber of Commerce indicated that the Chamber shares Senator Toomey's concerns and agrees that BDCs should be excluded from the definition of "Acquired Fund" under the AFFE disclosure requirements given their critical role in meeting the funding needs of many new and existing U.S. businesses, particularly since the 2008 financial crisis.

When the AFFE requirements were adopted in 2006 the SEC could not have anticipated the negative impact that the requirements would later have on BDCs. Notably, the "Cost-Benefit Analysis" section of the Funds of Funds Adopting Release revealed the SEC's belief that the AFFE requirements would not have "an adverse impact on capital formation."[21] This disconnect between the SEC's expectations and reality may be attributable to the fact that BDCs lacked a strong voice when the AFFE requirements were first considered. Notably, no BDC sponsors submitted comments on the 2006 proposal.

We believe that the SEC's proposed rulemaking regarding fund of funds arrangements is an appropriate opportunity to revisit the AFFE requirements.

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[17] Block, O'Shea and Mazzoli, *New SEC Leadership Announced and Hopefully A Fresh Take on an Old Rule*, Equity Research (Wells Fargo Securities, LLC) (Sept. 7, 2017), Exhibit 11 – Russell Commentary on BDC Exclusion at 9.

[18] *See* H.R. Rep. No. 115-792, 115th Cong., 2d Sess. (2018); H.R. Rep. No. 115-234, 115th Cong., 1st Sess. (2017); H.R. Rep. No. 114-624, 114th Cong., 2d Sess. (2016).

[19] *Legislative Proposals on Capital Formation and Corporate Governance*, Open Hearing before the S. Comm. on Banking, Housing, and Urban Affairs, 116th Cong., 1st Sess. (2019) (statement of Sen. Patrick J. Toomey, Member, S. Comm. on Banking, Housing, and Urban Affairs).

[20] *Id.*

[21] Funds of Funds Adopting Release at 48.

Recommendation

In light of the foregoing, we strongly encourage the SEC to exempt BDCs from the definition of "Acquired Fund" under the Forms.

II. Complex Structures Condition

We believe that the three-tiered fund of funds limitation condition contained in the Proposed Rule should be revised to either eliminate the limitation as it applies to the ability of an acquired BDC to acquire a Section 3(c)(1) or Section 3(c)(7) fund or otherwise include an additional exception thereto that takes into account certain prevalent market practices relating to investments by BDCs in private funds.

In this regard, many BDCs seek to invest alongside private equity sponsors in portfolio companies given the number of perceived benefits of doing so, including providing BDCs with an additional layer of due diligence and monitoring capabilities. Private equity sponsors also provide the portfolio companies of BDCs with strategic guidance, an additional potential source of capital and additional operational expertise (*i.e.*, in addition to any managerial assistance from the BDC). Given that the marketing efforts of these BDCs are generally focused on building and maintaining relationships with private equity sponsors which routinely make investments in the small and mid-sized companies that they target, it is not uncommon for BDCs to be offered the opportunity from time to time to invest in the private funds of these private equity sponsors.

Similarly, many BDCs have formed "joint venture funds" with third-parties in order to take advantage of attractive long-term financing and invest in more senior loans to middle-market companies that operate with less leverage.[22] While these loans often bear comparatively lower interest rates, joint ventures can magnify their return through the use of increased leverage. Furthermore, joint ventures enable BDCs to form mutually beneficially investing relationships with other large institutional investors, including insurance companies, pension funds and other BDCs.

Given the importance of these investments to BDCs and the fact that the market and investors understand why BDCs have made such investments and have not been confused by them,[23] we believe that it is appropriate to either eliminate the three-tiered fund of funds limitation condition in the Proposed Rule as it applies to the ability of an acquired BDC to acquire private funds or otherwise include an additional exception thereto that takes into account the prevalent market practice of BDCs investing in private funds in the circumstances described above.

[22] A "joint venture fund" is a fund (i) that would be an investment company under Section 3(a) of the 1940 Act but for the exclusions from that definition provided for in Section 3(c)(1) or Section 3(c)(7) of the 1940 Act, (ii) that is treated as unconsolidated portfolio company of a BDC and (iii) in which all portfolio decisions, and generally all other decisions in respect thereof, must be approved by an investment committee consisting of representatives of the BDC and the unaffiliated joint venture partner in the fund (with approval from a representative of each required).

[23] *See* Seeking Alpha, *BDC's Investments In JV Loan Funds Will Boost Their Investment Yield And Net Interest Income - A Case Study of FSC*, (Nov. 4, 2011) (Sean Dougherty), available at https://seekingalpha.com/article/3644116-bdcs-investments-jv-loan-funds-will-boost-investment-yield-net-interest-income-case-study-fsc (". . . JV Loan Fund's simple structures make them much easier for investors to understand").

In the event that the SEC elects to include an additional exception in the Proposed Rule, the exception could apply flatly to BDCs or be tailored to the two circumstances described herein.

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We would welcome the opportunity to meet with the SEC and discuss these issues further. Please contact SBIA's Executive Director, BDC Council, Tonnie Wybensinger, at [redacted] or [redacted] if we can provide additional assistance.

Sincerely,

Brett Palmer
President

Attachment

cc: Harry S. Pangas, Esq., Dechert LLP

APPENDIX ONE

Additional Materials in Support of SBIA's Position

The following are references and links to additional materials that support SBIA's position for the SEC to make the necessary regulatory or guidance changes to limit the adverse impacts of the AFFE rule on BDCs:

- **NASDAQ Publication**. SBIA published an article, ***Business Development Companies Seek to Improve Retail Investor Access to Private Markets***, through NASDAQ on September 24, 2018, that explained how the AFFE rules have constrained investment and liquidity in BDCs and limited the ability of main street investors to invest in private companies.

- **FY19 House Appropriations <*H.R. 6258*>.** House-passed language recommending that the SEC immediately use its existing authorities to make the necessary regulatory or guidance changes to exempt BDCs and limit the adverse impacts of the AFFE rule on BDCs.

- **Senate Banking Committee**. Full Committee hearing in February 2019 on ***"Legislative Proposals On Capital Formation And Corporate Governance"*** where Sen. Pat Toomey (PA) and Tom Quaadman, Executive Vice President, U.S. Chamber Center for Capital Markets Competitiveness shared concerns about the adverse effects on BDCs from the AFFE rule and recommended that the SEC exempt BDCs from it.

- **House Financial Services Committee <*Hearing Webcast*>**. The Subcommittee on Capital Markets held a hearing on September 26, 2018, where several members directed questions to the SEC's Director of Investment Management about the adverse impacts of the AFFE rule on BDCs.

- **House Appropriations Committee**.<***Hearing Webcast***>**.** SEC Chair Clayton was asked about the AFFE rule's impact on BDCs during an April 26th, 2018, hearing of the House Appropriations Subcommittee on Financial Services and General Government on the FY 2019 SEC budget.

- **SBIA Letter to SEC**. In a January 16, 2018, letter to SEC Chair Clayton, BDC industry participants, led by the SBIA, argued for the SEC to use its existing authorities to make the necessary regulatory or guidance changes to limit these and other adverse impacts of the AFFE rule on BDCs.