



June 20, 2018

The Honorable Tom Cotton  
124 Russell Senate Office Building  
Washington, DC 20510

The Honorable Doug Jones  
326 Russell Senate Office Building  
Washington, DC 20515

Dear Senators Cotton and Jones:

I am writing to express the Institute for Portfolio Alternatives' (IPAs) support for S. 3004, the Small Business Audit Correction Act of 2018. We appreciate your leadership in advancing this important legislation that provides necessary regulatory relief for small, privately-held, non-custodial broker-dealers (BDs).

For over 30 years the Institute for Portfolio Alternatives has raised awareness of portfolio diversifying investment (PDI) products among stakeholders and market participants, including: investment advisers, public policymakers and the investing public. We support increased access to investment strategies with low correlation to the equity markets: lifecycle real estate investment trusts (Lifecycle REITs), net asset value REITs (NAV REITs), business development companies (BDCs), interval funds and direct participation programs (DPPs). Through advocacy and industry-leading education, the IPA is committed to ensuring all investors have access to real assets and the opportunity to effectively balance their investment portfolios.

Independent broker-dealers, an important part of the IPA's membership, face increasing regulatory challenges while trying to compete on a level playing field with larger firms. One of those challenges is that current regulations require privately-held, non-custodial brokerage firms to use a Public Company Accounting Oversight Board (PCAOB) registered audit firm for their annual audits. For small, non-custodial BDs it can be challenging to find a PCAOB registered auditor willing to take their business. Very few PCAOB auditors today conduct small firm audits, and charge increasingly high fees and require extensive and complex paperwork of their small firm clients.

Prior to the enactment of the The Sarbanes–Oxley Act of 2002, BDs were required to hire AICPA registered auditors who followed Generally Accepted Auditing Standards (GAAS) when conducting BD annual audits. Following the enactment of Sarbanes-Oxley, BDs irrespective of size are now required to hire a PCAOB-registered auditor who follows the PCAOB-defined set of audit standards, which are markedly different and significantly more complex than GAAS. The reason they are more complex is because they were designed and intended for use in the performance of financial audits of public companies with public shareholders, not privately-owned small businesses.

The PCAOB audit requirement makes sense for large public companies such as Apple, and for BDs that carry customer funds or securities, like large Wall Street wirehouses, because the investing public and markets are potentially at much greater risk from these companies. Conversely, the PCAOB requirements make no sense for privately-held, small non-custodial firms that do not carry customer funds or

securities. Currently, a 3-person small business is held to the same standards as a these larger brokerage firms; this is not fair or reasonable. That is why the IPA supports your legislation to eliminate this burdensome requirement, which will allow small, private non-custodial BDs to better compete and serve their customers.

We look forward to working with your offices to pass this simple, common sense legislation that will remove costly burdens on non-custodial BDs. Please contact myself or Anya Coverman, IPA's Senior Vice President, Government Affairs and General Counsel at 202.548.7190 with any questions.

Sincerely,

A handwritten signature in black ink, appearing to read 'A. Chereso', with a horizontal line extending to the left.

Anthony Chereso  
President & CEO, Institute for Portfolio Alternatives