



Office of Advocacy Fact Sheet

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Accounting and Small Business

Advocacy's Letter to the U.S. Securities and Exchange Commission

On January 13, 2003, the Office of Advocacy of the U.S. Small Business Administration (Advocacy) filed a letter commenting on a recent U.S. Securities and Exchange Commission (SEC) proposed rule that would require auditors to “rotate” audit and review partners dealing with SEC audit clients every five years. Advocacy is concerned that the partner rotation requirement may eliminate vital small accounting firms from the market and impose increased audit costs upon smaller public companies. The full letter may be accessed at <http://www.sba.gov/advo/laws/comments/>.

Advocacy Recommends Flexibility for Small Accounting Firms

- Advocacy recommends that the SEC avoid a “one-size-fits-all” approach. Small auditors who are incapable of reasonably complying with the rule should not be forced from the market to the benefit of their larger competitors. This could harm not only the auditors, but their clients and the market for audit services as a whole.

Small Auditors Constitute a Substantial Number of Competitors

- There are approximately 767 accounting firms that provide audit services to SEC-reporting clients. These accounting firms serve 2,500 “small” public issuers (as defined by the SEC), with 2,200 of these small issuers being served by small accounting firms with less than \$6 million in revenue. Small accounting firms are an important competitive force, keeping audit fees lower for a large number of small issuers.

Small Auditors Would Be Disproportionately Burdened by the Proposed Rule

- The majority of accounting firms servicing public clients are small and do not engage in SEC practice as their main line of business. Although the American Institute of Certified Public Accountants' (AICPA) SEC Practice Section (SECPS) currently requires firms to rotate partners from SEC clients every seven years, 500 accounting firms with less than ten partners and five SEC clients are currently exempt. Advocacy Recommends that SEC adopt this policy.

For more Information on the Office of Advocacy

- Visit Advocacy's Web page at <http://www.sba.gov/advo> or contact Michael See at (202) 205-6533.