

July 23, 2002

The Honorable Michael G. Oxley
Chairman
House Committee on Financial Services
2129 Rayburn House Office Building
Washington, D.C. 20515

Re: Small Business Concerns with Accounting Reform Legislation

Dear Chairman Oxley:

The Office of Advocacy of the U.S. Small Business Administration (Advocacy) was established to represent the views of small business before Federal agencies and Congress pursuant to Public Law 94-305. As Chief Counsel for Advocacy, I urge you to recognize the important contribution of small businesses to our nation's economy as you complete the work of the Conference Committee on S. 2673, the "Public Company Accounting Reform and Investor Protection Act of 2002."

Based on the limited information available, the Office of Advocacy estimates there are 2,500 small businesses registered with the Securities and Exchange Commission (SEC) and an equivalent number of small and medium sized auditing companies relied upon by small businesses for accounting services. These small businesses may be harmed significantly as an unintended consequence of the mandatory requirements in S. 2673.¹ To avoid this undesirable result, I urge the Conferees to include sufficient flexibility in S. 2673 to alleviate unnecessary impacts on small businesses and small accountants.

In 1980 and 1996, Congress enacted into law the Regulatory Flexibility Act (RFA) and the Small Business Regulatory Enforcement Fairness Act (SBREFA). These important laws give small entities a voice in the rulemaking process. They require Federal agencies, such as the SEC, to address the concerns of small entities during rulemaking, including agency consideration of alternatives to avoid excessive or unnecessary regulations of small entities. The SEC has fulfilled the main purpose of the RFA and SBREFA in the past, reducing the negative effects of proposed regulations on small entities while advancing the important policy goals of the statute underlying the regulation. The same can be true with respect to reducing the adverse impact of the forthcoming auditing reform and corporate governance regulations. I urge the

¹ For the sake of brevity, this letter avoids detailed discussion of each of the many facets of the current reform proposal, however Advocacy believes the auditing/consulting divestiture, new corporate governance structures, reporting requirements, and greatly enhanced civil liability of issuers deserve to be mentioned as they are likely to impose massive costs upon small entities and businesses.

Conference Committee to enable the SEC to exempt small entities or classes of small entities as appropriate from the requirements of the bill and to promulgate all subsequent regulations in accordance not only with the letter, but also the spirit of the RFA and SBREFA.

It is vitally important that small entities have a seat at the table when the Federal government develops requirements to accomplish the auditing and corporate governance reforms demanded by the President, Congress and the American people. If the Office of Advocacy may be of assistance in your efforts, please contact me directly, or have your staff contact Assistant Chief Counsel Michael See at (202) 205-6533 or Michael.See@sba.gov.

Sincerely,

Thomas M. Sullivan
Chief Counsel for Advocacy

Michael R. See
Assistant Chief Counsel for Advocacy

CC: Chairman Paul Sarbanes, Committee on Banking, Housing, and Urban Affairs, U.S. Senate
Chairman Donald Manzullo, Committee on Small Business, U.S. House of Representatives
Representative Nydia Velazquez, Ranking Member, Committee on Small Business, U.S. House of Representatives
Chairman John Kerry, Committee on Small Business & Entrepreneurship, U.S. Senate
Senator Kit Bond, Ranking Member, Committee on Small Business & Entrepreneurship, U.S. Senate