VIA ELECTRONIC MAIL to: rule-comments@sec.gov

March 13, 2026

Vanessa A. Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: File No. S7-2026-01 – "Small Business" and "Small Organization" Definitions for Investment Companies and Investment Advisers

Dear Ms. Countryman:

The American Securities Association[1] ("ASA") appreciates the opportunity to comment on the Commission's proposal to update the "small business" and "small organization" definitions for investment companies, business development companies, and investment advisers for purposes of the Regulatory Flexibility Act.

ASA represents regional and independent financial services firms, including many correspondent and introducing broker-dealers and their affiliated investment advisers. These firms play a critical role in serving retail investors and small businesses across the country. They also bear a regulatory and audit burden that is often disproportionate to their size and risk profile.

We strongly support modernizing the small-entity definitions. Additionally, we urge the Commission to pair these definitional updates with concrete action to recalibrate PCAOB-driven audit requirements for small, privately owned non-custodial firms.

I. Support For the Proposed Adviser "Small Entity" Definition.

ASA supports the Commission's proposal to base the investment adviser "small entity" definition on regulatory assets under management ("RAUM") as reported on Form ADV, and to increase the RAUM threshold from $25 million to $1 billion, subject to the revised control-relationship test.

[1] ASA is a trade association that represents the retail and institutional capital markets interests of regional financial services firms who provide Main Street businesses with access to capital and advise hardworking Americans how to create and preserve wealth. ASA's mission is to promote trust and confidence among investors, facilitate capital formation, and support efficient and competitively balanced capital markets. This mission advances financial independence, stimulates job creation, and increases prosperity. ASA has a geographically diverse membership base that spans the Heartland, Southwest, Southeast, Atlantic, and Pacific Northwest regions of the United States.

For many of our members, this proposal would correct a longstanding misalignment between the legal definition of a "small" adviser and economic reality. For example, dual-registrant firms whose broker-dealer operations hold more than $1 billion in customer assets often have advisory RAUM of only a few hundred million dollars on Form ADV.

Under the current $25 million RAUM threshold, these firms are treated as "large" advisory entities despite modest advisory operations and limited staff. Under the proposed $1 billion RAUM threshold, they would appropriately be treated as "small" for RFA purposes.

Our membership data indicate that, if the proposal is adopted, almost all affiliated adviser entities of our correspondent/introducing broker-dealer members would qualify as "small entities" based on their Form ADV RAUM. Only a small number of outliers with advisory RAUM at or above $1 billion or with disqualifying control relationships would remain outside the definition. This is consistent with the Commission's estimates that the new threshold will capture a significant majority of advisers by number while leaving most industry RAUM in larger entities.

We encourage the Commission, in the adopting release, to confirm that RAUM as reported on Form ADV is the operative metric for adviser small-entity status and to provide clear examples illustrating the application of the control-relationship test to common dual-registrant and holding company structures.

II. Investment Company and BDC Definitions.

We acknowledge and generally support the proposal to update the small-entity definition for registered investment companies, including business development companies ("BDCs"), by moving to a $10 billion net-asset threshold to the "family of investment companies" level.

We agree that this approach better reflects current market size and structure and takes advantage of improved data. At the same time, BDCs and other alternative vehicles often present materially different risk and product profiles than plain-vanilla retail mutual funds and advisory accounts.

ASA respectfully urges the Commission, in any subsequent rulemakings or policy initiatives that rely on the new investment company small-entity definition (for example, in considering scaled compliance, disclosure, or audit requirements), to distinguish between:

- Retail-facing vehicles and advisers whose primary function is traditional portfolio management for retail investors; and
- BDCs and alternative products, whose investors may face more complex risks, reduced liquidity and whose capital markets role may justify a different calibration of regulatory relief, even if they qualify as "small entities" for RFA purposes.

We are concerned that treating all small investment companies, including BDCs, identically from a regulatory relief standpoint could create investor-protection and political optics that might derail otherwise sensible, targeted relief for small retail-facing firms.

III. The PCAOB Audit Burden on Small, Non-Custodial Firms.

For many of our members, the most acute and persistent pain point is the PCAOB-driven audit burden on small, privately owned non-custodial introducing broker-dealers and their affiliated RIAs.

Although the current proposal does not itself address broker-dealer audit requirements, its central theme—updating who is considered "small" in order to better understand and potentially tailor regulatory impact—speaks directly to the experience of our small introducing firms. We believe the Commission should explicitly connect these definitional updates to the need for proportionate audit requirements.

Our members consistently report:

- Audit engagements in which PCAOB-registered firms request extraordinarily high volumes of documentation—literally hundreds of documents per day during peak audit periods;
- Audit scopes and testing regimes that look indistinguishable from those applied to much larger, custodial organizations, even where the firm does not hold customer funds or securities; and
- Rapidly escalating audit fees and internal resource demands that have become operationally disruptive and economically unreasonable for small introducing firms.

In many cases, these are small, privately held, non-custodial firms with modest advisory RAUM and limited balance sheets. Yet they must comply with the full suite of PCAOB standards and are subject to auditors whose one-size-fits-all practices are heavily shaped by PCAOB inspection expectations designed for public companies and large intermediaries. For these firms, the marginal investor-protection benefit of the current PCAOB-driven regime is highly questionable when weighed against the cost of compliance and the risk that the cumulative burden will force exits from the market.

Our members are not seeking to avoid independent audits, financial reporting, or regulatory scrutiny. Rather, they question whether imposing a one-size-fits-all PCAOB regime—originally developed in the public company context—on small, privately held non-custodial entities is a sound or sustainable policy choice, particularly now that the Commission is modernizing which firms are formally recognized as "small entities."

IV. Using The New Small-Entity Definitions to Justify Concrete SEC Action.

We respectfully urge the Commission not to treat the updated small-entity definitions as a purely analytical adjustment for RFA purposes. Instead, the Commission should explicitly state, in the adopting release, that a key objective of modernizing the definitions is to enable scaled or alternative regulatory frameworks for small entities in subsequent rulemakings, including in the broker-dealer audit context.

In particular, ASA requests that the Commission:

- Direct the staff to develop and publish, on a defined timetable, a proposal or Commission-level guidance that would:
  - Establish an alternative audit regime for small, non-custodial broker-dealers that meet specified size and risk criteria—potentially permitting the use of an AICPA/GAAS audit framework in lieu of full PCAOB standards; or
  - In the alternative, create a risk-scaled PCAOB audit framework tailored to small, non-custodial firms, limiting required procedures to those commensurate with the risks those firms actually present.
- Use the Commission's oversight authority to formally request that the PCAOB evaluate and propose amendments to its standards and inspection approach for audits of small, non-custodial broker-dealers, with explicit reference to the revised SEC small-entity definitions as a gating criterion.
- Commit to convene a public roundtable or forum focused specifically on the audit burdens experienced by small introducing broker-dealers and their affiliated RIAs, with robust participation from small-entity representatives.

The rising volume of documentation demands, the complexity of testing, and the costs associated with auditors responding to PCAOB inspections have steadily increased while the firms' underlying risk profile—non-custodial, modest RAUM, limited balance sheets—has not changed.

If the Commission now formally recognizes these entities as "small businesses" and "small organizations," but does not follow through with any recalibration of the audit framework, the practical value of the definitional change for such firms will be minimal.

V. **Requests For the Final Rule**

In the final rule and adopting release, ASA respectfully requests that the Commission:

- Confirm the use of Form ADV RAUM and the updated control-relationship test as the basis for adviser small-entity status, with illustrative examples for dual-registrant and holding company structures;

- Acknowledge that a substantial share of newly recognized adviser "small entities" are affiliated with small, non-custodial introducing broker-dealers;
- State that a principal purpose of modernizing the small-entity definitions is to facilitate consideration of scaled or alternative regulatory requirements, including adjustments to audit obligations for small, non-custodial firms; and
- Direct staff to begin work—on a public, time-bound basis—on a project to evaluate and propose concrete options for small-firm audit relief, in coordination with the PCAOB.

We would also welcome a targeted Commission request for additional public comment on specific thresholds, conditions, and safeguards that should apply to any alternative or scaled audit regime for small introducing broker-dealers and their affiliated RIAs.

VI. Conclusion.

ASA appreciates the Commission's initiative to update the "small business" and "small organization" definitions for investment companies, BDCs, and investment advisers. We strongly support the proposed RAUM-based adviser definition and the adjusted investment company thresholds.

Most important for our members, recognition as "small entities" will ring hollow unless it leads to tangible, proportionate relief from regulatory structures that were never designed with small, non-custodial firms in mind—most notably, the current PCAOB-driven audit framework. We therefore urge the Commission to use this rulemaking as the foundation for prompt and concrete action to recalibrate audit requirements for small introducing broker-dealers and their affiliated RIAs, in a manner that preserves investor protection while allowing small firms to remain viable and competitive.

ASA and its members stand ready to work with the Commission, its staff, and the PCAOB on data, thresholds, and safeguards that would support such a balanced approach. Please do not hesitate to contact me with any questions or to discuss these issues further.

Sincerely,

Jessica Giroux

Jessica R. Giroux
Chief Legal Officer
American Securities Association