Comments to S7-2026-01

SEC's goal of minimizing economic impact and compliance burden for small firms, will NOT be met raising AUM threshold to $1B.

SEC currently fails to exert any rules or guidelines on state regulators. The result is a chaotic state enforcement environment that maximizes economic & compliance burden for small firms that borders on abuse.

If SEC fails to create and enforce a minimum set of rules & standards on state regulators, the small firms will be compelled to merge with $1B + firms, eliminating local competition, and creating mega monopolistic firms. One has to wonder if this is not a secondary goal of raising the AUM threshold so high – lobbied by big firms.

My Firm's experience:
**Problem**: 'small' RIA firms with more than 5 clients per state, are exposed to audits in multiple states.
This MUST be addressed and limited, before this proposal is set in force.

1. If a firm has clients in multiple states, the firm can be audited by multiple states. There is NO rule in place by SEC that limits the small firm's exposure to being audited. I had 3 audits in 5 years. Each state puts my firm on their 3-year audit cycle, and performs the audit, even if I just had one.
2. Each audit hijacks several weeks of my schedule, productivity and client service. Document requests for client statements, open those clients up to data hijacking in State servers. Multiply this by each audit.
3. Each state has inconsistent, conflicting audit processes, and rules – this makes the compliance burden on a small firm, especially solo RIA firms, not only huge and costly, but **Impossible** to satisfy. State regulators exercise freedom in enforcing SEC regulations tighter or more exotic, than SEC does. If the SEC allows marketing for instance, a state (like WA) can say "no".
4. My audits start in a certain month, then the state takes 3+ months to create a reply after the audit. It puts me in a holding pattern, unable to dedicate my focus to my clients. I am distracted by auditor's drip torture of requests over 3 months, decreasing my time & effectiveness to clients. It's not sustainable.
5. Anyone familiar with process improvement knows this 3 month cycle delay kicks every single audit down the road for all firms. It can & should be changed to limit states to a 3 week response window. Otherwise how will they take on thousands more firms?

Solution:
A mandatory rule must be in place before the AUM threshold is raised, that limits a firm's audit exposure to no more frequently than the SEC would audit a firm: 1 in 7 years?
Perhaps require the firm's domiciled state must control audit cycle of all registered states for a firm, and must follow a 'no more than 1 audit in 5-7 years rule' – (aligning with SEC frequency) unless there is a series of consumer/investor complaints to warrant more frequent audits. Limit time frames for audits.

**Problem**: States have inconsistent, conflicting audit processes, and rules – not standardized. They do not focus on the mission to protect investors (capital formation, efficient markets not as applicable to small RIAs) this makes the compliance burden on small firms, not only huge and costly, but Impossible to satisfy.

1. State auditors from private sector corporate auditing firms, do not understand the mission of audits under SEC guidelines or what it looks like. Training, processes & approach are not standardized.
2. Auditors are in the weeds, losing sight of the mission. Auditors (who are not attorneys) require changes on statements, billing layouts, or advisor agreement contract wording (mine were written by an SEC attorney) so that it makes 'sense' to the auditor who is not familiar with the industry. One auditor

required I reprint ALL letterhead, cards, documents, at great COST & time, to add the “LLC” behind my name, which was not required by the SOS legally as I also had an aka without the LLC.

3. Inconsistent enforcement. the next state's auditor makes completely different changes, according to their personal opinion – some not even regulated or required by the SEC. Each change is COSTLY in time, hiring legal or professional services, to please an auditor with power.

Solution:

- Impose a standard MISSION. Part of this mission should be to support, not hinder or burden a firm.
- Impose a standard checklist PROCESS (what is looked at, what is not) to meet the MISSION, limit ‘cowboy’ auditor random whims and changes (ie, if they are not attorneys, limit power to require changes to Advisor legal contracts ), a 2-3 week response time (so they must manage their time and schedules to provide timely responses), and standardized training for all auditors.
- Objective not Subjective, Audits. Define requirements. If state regulators have a hidden requirement that each auditor must find “X” number of Subjective things to complain about, so they can appear effective - prohibit this. Make the checklist. It must be Objective. If we pass, move on to the next audit. Don't add things for Advisors to ‘fix’ that have nothing to do with the Mission to protect the investor.

**Summary:**

If States are not required to limit the number of audits, standardize audit process & content by SEC, and become highly EFFICIENT - - then kicking 75% of firms from SEC registrations down to state level, will cause state oversight to FAIL. The Mission will Fail. Fraud will be missed. Audits will go off-track.
Small firms will experience excessive economic & compliance burden.