



Association of Audit Committee Members, Inc.

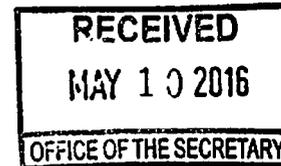
Dedicated to Strengthening the Audit Committee

Frederick D. Lipman

Fax

www.aacmi.org

May 2, 2016



Secretary
The Securities and Exchange Commission
100 F Street, NE
Washington DC 20549-1090

Re: Concept Release, Release No. 33-10064
"Business and Financial Disclosure Required by Regulation S-K"
File Number S7-06-16

Dear Sir or Madam:

This letter is in response to the referenced Concept Rules. The views expressed in this letter do not necessarily reflect the views of the board of directors or members of the Association of Audit Committee Members, Inc. or the partners of Blank Rome LLP, of which I am a partner. The views expressed are solely my views. My comments relate only to the following points set forth below.

My personal background is as follows: I graduated from Harvard Law School in 1960 and became a securities lawyer in 1962, representing a client in a public offering. I have continued to be an active securities lawyer to-date and therefore I suspect that I am one of the oldest commenters to you. I participated in public offerings throughout the 1960s and currently have an indirect participation in a public offering. Until the Wheat Report recommendations were adopted by the SEC in the early 1970s, I helped my public clients file Form 9-K semi-annual reports. I am the author of 17 books, over 50 articles, taught securities law at the University of Pennsylvania Law School and Temple University Law School for approximately 10 years and in the Wharton MBA program for 5 years. My views are influenced by my long history of representing publicly held clients.

There is a major difference between 2016 and 1962 in the relative bargaining power of institutional investors and publicly held clients. Today there are large mutual funds with assets exceeding \$1 trillion under management, such as Fidelity Investments and Vanguard. None of these mutual funds existed in 1962 or when the Wheat Report recommendations were adopted in the early 1970s (or at least do not exist to the same degree as today). Regardless of what the SEC does in response to the referenced Concept Release, these huge institutional investors, together with the prominent national securities exchanges, will dictate what they require from public companies, including some of the largest. These institutional investors can stop investing in, or providing securities analyst coverage for, any but the largest public companies as a punishment for not providing the detailed financial information they require.

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Moreover, these large mutual funds and other institutional investors will not typically invest in companies with a public float of less than \$200 million.

In light of these changes in the marketplace, I would suggest the following:

- There should be no change whatsoever in the prescriptive disclosures currently required. Any recommended change would be so insignificant so as to not save anyone money and would force people to read another 500 page release. Moreover, prescriptive disclosures give securities lawyers the basis for requiring disclosure of information which clients prefer not giving and provide the leverage for securities professional with their clients which would not be afforded by principle-based disclosures. I would recommend, however, changes in the nature of the companies which are legally required to file quarterly reports with the SEC as described below.
- Smaller reporting companies (“SRC”) should not be legally required to file quarterly or even semi-annual reports. This will permit them to no longer be required to hire on a full-time basis expensive internal audit, accounting/SEC reporting personnel, or employ outside accountants, auditors and attorneys on a quarterly basis, which, in my judgment, costs their shareholders more than the benefit obtained from such reports. Please note that most of these companies do not have securities analysts who follow the stock and can be viewed as “orphan” public companies. There is nothing to prevent an SRC from filing quarterly reports if they so wish because of market demand or other institutional pressure, or otherwise.
- Companies which are larger than SRCs, but whose public float does not exceed \$200 million, should be treated the same as SRCs. Since companies with a public float of less than \$200 million will typically not receive investments from the major institutional investors, there is no reason to legally require them to file quarterly reports. There is nothing to prevent these companies from filing quarterly reports if they so wish because of market demand or other institutional pressure or otherwise.

These proposed changes reflect the realities of today’s market conditions which did not exist at the time the Wheat Report recommendations were adopted.



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These proposed changes also permit experimentation by smaller public companies in making disclosures voluntarily. Currently, all U.S. public companies which are required to file quarterly reports on Form 10-Q under the 1934 Act, regardless of whether or not it makes any business sense or is helpful to investors. By making such reports voluntary for smaller public companies, such companies will be able to carefully weigh costs versus benefits. This avoids the so-called "Procrustean bed" approach the SEC currently follows in dealing with the smaller public companies.

When I first started to practice securities law in 1962 I could read all of the SEC's regulations and forms in about two hours. Today it would probably take a full day or two. Despite the addition of hundreds of thousands of words, I have not seen any significant change since 1962 in the number of frauds or financial and legal disasters of public companies.

The typical response of the SEC to the public and political pressure resulting from one or more financial or legal disasters is to add more required words to its regulations and forms. Maybe it is time to rethink whether this is the proper response.

Sincerely yours,

Frederick D. Lipman

FDL:bjh