The Association of Accountants and Financial Professionals in Business

July 16, 2019

Ms. Vanessa A. Countryman, Acting Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: File No. S7-06-19
Proposed Rule − Amendments to the Accelerated Filer and Large Accelerated Filer Definitions

Dear Ms. Countryman:

The Financial Reporting Committee (FRC) and the Small Business Committee (SBC) of the Institute of Management Accountants (IMA) are writing to share their views on the Securities and Exchange Commission's (SEC or Commission) Proposed Rule − *Amendments to the Accelerated Filer and Large Accelerated Filer Definitions* (Proposal).

The IMA is a global association representing over 100,000 accountants and finance team professionals. Our members work inside organizations of various sizes, industries and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities, and multinational corporations.

The FRC is the financial reporting technical committee of the IMA. The Committee includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics, and analysts. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals, and other documents issued by domestic and international agencies and organizations. Additional information on the FRC can be found at www.imanet.org (About IMA, Advocacy, Financial Reporting Committee).

The SBC addresses issues that impact small and medium-sized organizations. On behalf of IMA's members, the SBC engages and suggests solutions to standard-setters and regulatory agencies such as the Financial Accounting Standards Board, SEC, International Accounting Standards Board, Small Business Administration, American Bankers Association, Internal Revenue Service, and others. Additional information on the SBC can be found at www.imanet.org (About IMA, Advocacy, Small Business Committee).

The registrants targeted for relief from the accelerated filer and large accelerated filer definitions because their revenues are less than $100 million are likely representative of the population of smaller companies, non-accelerated filers and Emerging Growth Companies that have more ineffective internal control over financial reporting (ICFR) and more material restatements (as noted on pages 55, 58, and 92 of the Proposal). This observation is consistent with the experience of FRC and SBC members that have worked with smaller companies. In addition, evidence seems to suggest that auditor attestation results in more effective ICFR (as noted on pages 87 and 88 of the Proposal) and an increase in reporting of significant deficiencies and material weaknesses (as noted on page 84 of the Proposal). Accordingly, some may believe that the Proposal is not consistent with the Commission's objective of protecting the investor.

On the other hand, the SEC is trying to encourage public company growth by easing the burden and costs of public companies. The Proposal estimates the cost burden to the targeted relief population to be just over $200,000 per company for audit and non-audit costs (as noted on page 137 of the Proposal).

We can support the Proposal due to the continued requirement for management reporting on the effectiveness of ICFR for the targeted registrants. As the Proposal documents, registrants that are not required to obtain ICFR attestation report an ineffective ICFR at a greater rate than registrants required to have auditor attestation according to the 2011 SEC Staff Study (as noted on page 87 of the Proposal). Other research noted on pages 94 and 95 of the Proposal also shows that registrants not required to obtain ICFR auditor attestation with revenue less than $100 million report ineffective ICFR at much higher rates.

However, given the conflicting evidence in the Economic Analysis section of the Proposal, our support is contingent on a required review of the impact of the changes on the relief population after five years. Did management of the relief population report ineffective ICFR at greater rates than registrants required to have auditor attestation? Did the relief population have less reliable financial statements (more restatements) than the population requiring auditor attestation? In the event of a restatement, did management report ineffective ICFR before the restatement or concurrent with the restatement? The subsequent review would be specific to the relief population (unlike the studies included in the Economic Analysis) and would include the impact of new auditing standards, PCAOB inspection focus on ICFR and new judgment-based accounting standards. In addition, the review could determine the actual reduction in audit and non-audit costs for the relief population versus the estimates in the Proposal. Finally, the SEC should consult with the PCAOB, especially the inspection staff, during the subsequent review to gain their insight on the impact of the changes.

We would be pleased to discuss our comments with the SEC staff at their convenience.

Sincerely,

Nancy J. Schroeder, CPA
Chair, Financial Reporting Committee
Institute of Management Accountants
[redacted]

Heather Bain, CPA, MBA, CMA
Chair, Small Business Committee
Institute of Management Accountants
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