



National Association of State Boards of Accountancy

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July 23, 2019

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

[Via email: rule-comments@sec.gov](mailto:rule-comments@sec.gov)

**Re: Amendments to the Accelerated Filer and Large Accelerated Filer Definitions
File Number S7-06-19**

The National Association of State Boards of Accountancy (NASBA) appreciates the opportunity to offer comments on the Amendments to the Accelerated Filer and Large Accelerated Filer Definitions (amendments). NASBA's mission is to enhance the effectiveness of the licensing authorities for public accounting firms and certified public accountants in the United States and its territories. Our comments on the Securities and Exchange Commission ("SEC") Amendments are made in consideration of the Accountancy Boards' charge as regulators to protect the public interest.

In furtherance of that objective, NASBA offers the following comments on the amendments. Overall, we agree that the proposed amendments should promote capital formation while maintaining investor protection. As regulators, we have keyed our responses to the specific questions as presented on pages 34 through 39 of the Release No. 34-85814, File No. S7-06-19 that we believe should be considered as part of protecting the public interest.

Question 4:

In the SRC Adopting Release, the Commission established the SRC revenue test to include issuers with annual revenues of less than \$100 million if they have no public float or a public float of less than \$700 million. The proposed amendments would use the SRC revenue test's \$100 million annual revenue threshold to determine whether an issuer would qualify as an accelerated or large accelerated filer. Should the proposed amendments use the SRC revenue test's \$100 million annual revenue threshold? Why or why not? Should there be a different annual revenue threshold for determining whether an issuer is an accelerated or large accelerated filer? Why or why not?

We have concerns over the proposed change in definition of a nonaccelerated filer to treat companies with less than \$75 million of public float, or less than \$100 million in revenue and \$700 million in public float, as a nonaccelerated filer (referred to in your release as "smaller reporting companies" or SRCs). Many biotech and other start-up companies are placing large initial public offerings based on key performance indicators (KPIs) that are derived from financial systems, but

they have revenue less than \$100 million. KPIs, such as backlog, sales orders, and number of customers, are derived from financial systems that should have solid internal controls. Under the proposed amendment, many of these companies would not be subject to SOX Section 404 (b). Smaller companies are more likely to have less sophisticated financial systems and potentially less robust internal controls. This could lead to unreliable data and large market exposure to the public interest.

Question 13:

For the low-revenue issuers that would be newly exempted from the ICFR auditor attestation requirement under the proposed amendments, would an auditor engaged for the purpose of a financial statement only audit be as likely to test the operating effectiveness of certain of the issuer's internal controls to reduce the amount of substantive testing it performs as it may do under our existing rules? Given the potential for such testing as well as the risk assessment standards that apply to a financial statement only audit, to what extent would the consideration of internal controls by the auditors of these issuers change as a result of the proposed amendments?

We understand that the proposed amendments would not relieve management of its obligation to assess internal controls over financial reporting ("ICFR"), nor would it relieve an independent auditor of its obligation to consider ICFR in the performance of its financial statement audit of an issuer. As the auditor is still required in accordance with PCAOB AS 2110 to "obtain a sufficient understanding of each component of ICFR to (a) identify the types of potential misstatements, (b) assess the factors that affect the risks of material misstatement, and (c) design further audit procedures," the additional effort by the auditor to test the operating effectiveness of internal controls may not outweigh the benefit to the public interest of receiving the SOX Section 404(b) ICFR report in many cases. Additionally, many auditors are likely leveraging the work done on internal controls in order to reduce substantive testing. Thus, the overall burden to a company under these revised definitions may not be reduced as much as contemplated in the proposal for many companies.

Question 15:

In lieu of, or in addition to, the proposed amendments, should we consider amendments that would result in ICFR attestation audits being required at a reduced frequency? For example, should we require the proposed affected issuers to provide an ICFR audit attestation only once every three years? If required once every three years, what financial reporting periods should we require the ICFR attestation audit to cover? Currently the ICFR attestation audit is required to cover only the current period. Should we require the ICFR attestation audit to cover only the current period or should it include all three years?

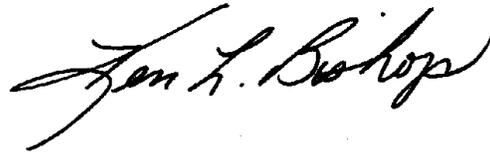
We do not believe that the frequency of ICFR attestation audits should be changed for accelerated filers. There is a cycle and discipline in the annual requirement for both management and auditors. By adopting cycle testing of ICFR, it would imply that this is really not all that important - otherwise why is it required every year. This would not be in the public interest.

We appreciate the opportunity to comment on the amendments.

Very truly yours,

A handwritten signature in black ink that reads "Janice L. Gray". The signature is written in a cursive style with a large initial "J".

Janice L. Gray, CPA
NASBA Chair

A handwritten signature in black ink that reads "Ken L. Bishop". The signature is written in a cursive style with a large initial "K".

Ken L. Bishop
NASBA President and CEO