



July 25, 2019

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

Re: File Number S7-06-19

Dear Ms. Countryman:

We appreciate the opportunity to provide input on the Securities and Exchange Commission's (the SEC or the "Commission") Request for Comment on the proposed rule *Amendments to the Accelerated Filer and Large Accelerated Filer Definitions* (the "Proposed Rule" or the "Proposal"). We commend the SEC for re-examining these definitions. Our observations and recommendations are included in the accompanying Appendix and are based on our experiences in working as independent auditors with current and prospective SEC registrants.

We would be pleased to discuss our comments or answer any questions that the SEC staff or the Commission may have. Please do not hesitate to contact John May (██████████) or Chris Dinkel (██████████) regarding our submission.

Sincerely,

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

PricewaterhouseCoopers LLP



I. Overall considerations

We support the Commission's objective of promoting capital formation while maintaining effective investor protections in proposing to amend the accelerated filer definition. While we recognize the potential reduction in costs for certain registrants that would be newly designated as non-accelerated filers under the Proposed Rule (and the possibility that such a reduction could preserve capital and encourage more companies to "go public"), we also acknowledge the benefits associated with the auditor attestation requirements set forth in Section 404(b) of the Sarbanes-Oxley Act of 2002 (SOX). The Commission must weigh these costs and benefits when considering this Proposal. We also believe the Commission should obtain feedback from investors.

In the following sections, we outline our observations and suggested considerations related to the Proposal.

II. Change in definition of accelerated and large accelerated filers

The Proposed Rule would expand the population of companies designated as non-accelerated filers to include those companies with less than \$100 million in annual revenues that meet the SEC's definition of a smaller reporting company. The addition of a revenue criterion to the accelerated filer definition is new under the Proposed Rule, and follows the use of a revenue criterion as part of the smaller reporting company definition. While we note the difficulty of identifying specific metrics to be used to classify registrants into groups of similar risk and complexity, we support the concept of scaled regulation to facilitate capital formation and meet the needs of stakeholders. We acknowledge the Proposed Rule would add complexity to the determination of filer status, especially for smaller registrants; however, we do not believe the increased complexity is prohibitive.

As part of the update to the accelerated filer definition included in the Proposed Rule, the term "aggregate worldwide market value" is defined as "the aggregate worldwide market value of the voting and non-voting common equity held by its non-affiliates." We note that this definition differs from a similar term used in the recently proposed rule, *Amendments to Financial Disclosures about Acquired and Disposed Businesses* (the 3-05 Proposal), which we believe could cause confusion. To help address this potential confusion, we suggest using a different term in the Proposed Rule.

II. Section 404 of the Sarbanes-Oxley Act of 2002

Section 404 of SOX contains two distinct requirements applicable to different groups of registrants. Section 404(a) requires annual reports required by Exchange Act Section 13(a) or 15(d) to include a statement that it is management's responsibility to establish and maintain adequate internal control over financial reporting (ICFR), and to provide management's assessment of the effectiveness of the issuer's ICFR as of the end of the most recent fiscal year. SOX Section 404(b) requires any issuer subject to SOX Section 404(a), other than an emerging growth company (EGC), to have its external auditor attest to the effectiveness of the issuer's ICFR. Importantly for consideration of this Proposal, SOX Section 404(c) exempts non-accelerated filers from the SOX ICFR auditor attestation requirement.

The passage of SOX and the focus on ICFR has had a positive impact on financial reporting quality. Implementation of the requirements of SOX has led to an enhanced focus on the quality of reported information and ICFR, which has had a positive impact on the reliability of that financial information. ICFR is strengthened by the auditor attestation requirement under SOX Section 404(b), and stronger ICFR has had a positive impact on both capital formation and investor protection.



A significant impact of this Proposal would be the expansion of the population of companies that will qualify as non-accelerated filers, and that will therefore be exempt from having an auditor attestation over the effectiveness of the issuer's ICFR pursuant to SOX Section 404(b) for at least as long as they remain non-accelerated filers. Given the benefits associated with an attestation of ICFR, we believe this may potentially have a detrimental impact on the quality of financial reporting for these registrants. However, we note that the SOX Section 404(a) requirements for management to establish, maintain, and assess the effectiveness of ICFR are (subject to transition provisions) applicable to non-accelerated filers. We also note that this Proposal would not impact certain responsibilities of an auditor when performing an audit in accordance with Public Company Accounting Oversight Board (PCAOB) standards, whether the auditor is performing an attestation over the effectiveness of an issuer's ICFR or not. Audits performed under PCAOB standards require an auditor 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, regardless of whether the issuer is subject to the requirements of SOX Section 404(b). In addition, control deficiencies that represent a significant deficiency or material weakness are required to be communicated to management and the audit committee in both a financial statement audit and an ICFR attestation audit. These requirements may mitigate the potentially negative impact to the quality of financial reporting as a result of eliminating the auditor attestation requirement for those issuers that newly qualify as non-accelerated filers under the Proposal.

We also acknowledge the fact that neither SOX Section 404(a) nor 404(b) apply to a company filing an initial registration statement with the SEC and that existing rules temporarily exempt certain other categories of filers from complying with SOX Section 404(b), such as newly public companies and EGCs. As noted above, we support the appropriate scaling of regulations to best meet the needs of the capital markets.

III. Economic analysis

The Proposed Rule contains an economic analysis that is based on estimates of the average size of certain registrants, including estimates of the average number of employees and average public float for these companies, and an estimate of which costs associated with an audit would be fixed versus those that would scale proportionately with the size of the company. In addition to the challenges associated with developing meaningful estimates based on these average metrics for registrants impacted by the Proposal, we note that the economic impact is heavily dependent on individual facts and circumstances. These include the risk and complexity inherent in the registrant's business and the auditor's determination of the most efficient and effective testing strategies even in the absence of a SOX Section 404(b) ICFR attestation. For example, when performing a financial statement audit, the auditor may find it more efficient to test the operating effectiveness of an issuer's internal controls related to a specific account or set of transactions, regardless of whether the issuer is subject to the requirements of SOX Section 404(b).

The Proposal requests comments on whether the pricing of all issuers would change as a result of the proposed amendments. We do not expect this Proposal to impact the pricing of auditing services for issuers not affected by the Proposal, such as registrants that currently qualify as large accelerated filers and that would remain large accelerated filers under the Proposed Rule.

If the Commission moves forward with approving the Proposed Rule, we encourage performing a robust post-implementation review that includes a cost-benefit analysis (i.e., one that also considers changes in the quality of financial reporting as measured, for example, by the number of restatements) related to the companies that have become exempt from the SOX Section 404(b) requirements.

The Proposal requests comments regarding whether any current or developing auditing practices or technology may have an impact on the economic effects of the Proposed Rule. We believe the development of technology-enabled auditing practices is of critical importance to the auditing



profession, and that these developments will have a pervasive impact on audit procedures, regardless of whether an auditor attestation is performed. As a result, we do not believe the impact of technological developments would be a factor in the economic analysis of the Proposed Rule.

IV. Transition guidance

Given the impact on issuers that will newly qualify as non-accelerated filers under the Proposal, we recommend the Commission provide detailed transition guidance that addresses how the timing of the rule adoption and related effective date impact the assessment of filer status in the year the rule becomes effective.