July 29, 2019

Vanessa Countryman, Secretary  
Securities and Exchange Commission  
100 F Street, N.E.  
Washington, D.C. 20549-1090

SEC Release No. 34-85814; File No. S7-06-19  
Amendments to the Accelerated Filer and Large Accelerated Filer Definitions

Dear Madam Secretary:

We appreciate the opportunity to respond to the Securities and Exchange Commission’s (SEC or Commission) request for comments on the proposed rule, Amendments to the Accelerated Filer and Large Accelerated Filer Definitions (Proposed Rule or Proposal). We applaud the Commission’s efforts to routinely evaluate and revise the securities regulations so they protect the interests of investors while facilitating capital formation. We support the Commission’s enhancements in this area, and generally agree with the objective of the Proposed Rule.

Our observations on the Proposal focus on the following topics:

• Establishing filer categories that are clear and discernible
• Maintaining the frequency of audits of internal control over financial reporting (ICFR) for those registrants subject to Section 404(b) of the Sarbanes-Oxley Act (SOX 404(b))
• Retaining the current disclosure requirements of voluntary ICFR audits while leveraging technology that will navigate users to existing information
• Providing ample notice of the final rule’s effective date

Filer Categories

We believe that amendments to the definitions of accelerated and large accelerated filer should maintain clear and discernible filer categories. In our view, the proposed changes do not add additional complexity to current filer categories because the amendments simply change the boundaries at which these two categories are set. By integrating corresponding elements of the smaller reporting company (SRC) definition into the definitions of accelerated and large accelerated filer, such as aligning the annual revenue threshold at $100 million, some convergence will be achieved. This is also true for the proposed transition guidance for exiting categories.

We encourage the Commission to consider further opportunities to simplify the number of filer categories for the benefit of all stakeholders. If an alternative approach is taken in the final rule to amend the accelerated and large accelerated filer definitions, we encourage the Commission to avoid incorporating new elements or additional filer categories that are not based on existing
metrics or thresholds as this would likely create confusion and complexity for market participants.

**Frequency of ICFR Audits**

Under the current rules, a registrant subject to compliance with SOX 404(b) must have an auditor attestation of ICFR each year. We have observed that this annual ICFR audit plays an important role in high quality financial reporting. For the benefit of both investors and these registrants, ICFR audits instill rigor into a registrant’s financial reporting process, yielding more reliable financial statements and in turn a lower cost of capital. We do not support changes to the frequency of ICFR audits for companies subject to the provisions of SOX 404(b), or permitting less than annual ICFR audits for certain companies, because:

- Auditors would continue to test controls in many instances because auditing without testing controls has become less practical and efficient as registrants have increased their technological dependency by automating more processes. Therefore the cost of the audits would not decrease, but investors would not have the benefit of the annual ICFR audit report.
- In situations where the registrant does not request an annual ICFR audit and the auditor does not test controls, the resulting reduction in ICFR audit frequency would add complexity and/or cost. Performing an ICFR audit once every three years, for example, would likely result in registrants bearing significant costs in the year of the ICFR audit—likely incremental to the cost of an annual ICFR audit. Although auditing standards allow for the use of evidence from prior audits, the relevance and reliability of such evidence diminishes significantly in a short period of time. That means, practically, an audit strategy that does not test controls in “off years”, those years in between an ICFR audit, would change the nature or increase the extent of substantive audit procedures required in the financial statement audit, offsetting potential cost savings from not testing controls.
- A lot can change in a company in a three-year period. Its business, management team, and system of quality controls may be quite different in year three from year one. We do not believe this alternative would promote effective ICFR or more reliable financial reporting on a consistent basis at the affected subset of filers.

On that basis, we believe that reducing the frequency of an ICFR audit is not a feasible alternative. We recommend the Commission maintain the annual frequency of ICFR audits for those registrants that are subject to compliance with SOX 404(b) in the final rule.

**Disclosure of Voluntary ICFR Audits**

We recommend the Commission retain current disclosure requirements when a registrant voluntarily provides an ICFR audit. Requiring additional disclosure would not provide

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1 PCAOB AS 2110, *Identifying and Assessing Risks of Material Misstatement*, and AS 2201, *An Audit of Internal Control Over Financial Reporting That is Integrated with an Audit of Financial Statements*, allow auditors to incorporate knowledge from past ICFR audits when performing risk assessment procedures and determining the nature, timing and extent of audit procedures, respectively. Additionally, AS 2201 allows an auditor to use a benchmarking strategy for automated application controls. We believe an auditor’s ability to use information obtained in past audits weakens with the passage of time between ICFR audits.
incremental information about the existence of an ICFR audit that is not already included within the filing. Alternatively, we encourage the Commission to seek ways to improve a user’s navigability to the existing information by increasing the use of existing technology, consistent with other current projects.

Effective Date

Registrants subject to an ICFR audit often begin preparing and coordinating that audit at the start of a new fiscal year. Any changes to the current rules will require registrants and auditors to adjust the audit strategy accordingly. For registrants to maximize the intended benefits of the Proposed Rule, we recommend the Commission provide adequate notice of the effective date.

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We appreciate the opportunity to respond to the request for comments on the Proposed Rule. If you have any questions regarding our comments or other information included in this letter, please do not hesitate to contact Matthew Doyle or Timothy Brown.

Very truly yours,

KPMG LLP

cc:

Mr. Jay Clayton, Chairman
Mr. Robert J. Jackson Jr., Commissioner
Ms. Allison H. Lee, Commissioner
Ms. Hester M. Peirce, Commissioner
Mr. Elad L. Roisman, Commissioner
Mr. William Hinman, Director, Division of Corporation Finance
Mr. Kyle Moffatt, Chief Accountant, Division of Corporation Finance
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