



Tel: 312-856-9100
Fax: 312-856-1379
www.bdo.com

330 North Wabash, Suite 3200
Chicago, IL 60611

July 29, 2019

Office of the Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090

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

Dear Office of the Secretary:

This letter is the response of BDO USA, LLP to the proposed rule amendments referred to above.

We support the Commission's goal of promoting capital formation and reducing compliance costs for smaller reporting issuers while maintaining investor protection. We agree that high quality and reliable financial information is a critical aspect of investor protection. As noted in the proposal, the requirement for an auditor to opine on management's assessment of the effectiveness internal controls over financial reporting ("ICFR") under Section 404(b) of the Sarbanes-Oxley Act of 2002 is intended to enhance the reliability of management's disclosure related to ICFR and the effect of removing this requirement for the proposed category of issuers may result, over time, in management of such issuers being less likely to maintain effective ICFR. While lower-revenue issuers may be less susceptible to the risk of certain kinds of misstatements (such as revenues), we believe that less management attention to internal controls may result in a higher risk of misstatements in other accounting areas. For these reasons and the others that we express below, we do not support amending the accelerated filer definition.

Areas of Complexity for Lower-Level Revenue Issuers

To a certain extent, we agree that the level of an issuer's revenues may be relevant to the complexity of its financial systems and controls and the nature of its ICFR. However, based on our experience, a lower level of revenues does not always translate to less complex financial reporting and related controls. For example, many early stage companies that would be affected by the proposal typically enter into complex transactions and arrangements (e.g., preferred stock and convertible debt offerings) to fund their pre-revenue activities. The accounting for such transactions (and complex financial instruments in general), can be highly complex and is a frequent area that requires restatement to previously issued financial statements. Additionally, while revenues may not be a relevant measure for making an investment decision about these companies, investors may be interested in how such issuers disburse their funds. Accordingly, an issuer's internal controls over the accounting for and classification of research and development and general and administrative expenses may be considered critical to some investors. Additionally, the accounting for clinical trial costs (particularly when the entity employs a third-party clinical research organization) can be complex and



requires a strong internal control structure to ensure such expenses are reported at the right amount and in the appropriate period.

Areas of high complexity that are not tied to revenues exist for other types of companies as well. For example, financial institutions with low levels of revenue may have a relatively high asset base. Accordingly, the significant judgements and related internal controls (including management review controls) over the allowance for loan losses are critical to producing high quality, reliable financial statements. These examples are not intended to imply that such companies all have weak internal systems of control. Instead, they are intended to illustrate that complexity resides in areas other than revenues which are susceptible to a higher risk of misstatement. As smaller issues generally have smaller accounting staff and resources dedicated to accounting and controls for complexities that arise, we believe there is an increased likelihood of unidentified material weaknesses in the absence of ICFR audit.

Compliance Costs

While we appreciate the challenges of estimating the costs and benefits of the proposed amendments, it is unclear to us whether the estimated cost savings noted in the proposal consider the incremental costs associated with an audit approach that does not have the benefit of a related ICFR audit. For example, an auditor may determine that a controls-based approach is still the most effective and efficient approach to auditing the financial statements, so the auditor may still spend a significant amount of time and effort testing internal controls. If a controls-based approach is not taken for the audit of the financial statements, additional cost and effort may be incurred on substantive testing. We also believe that a higher risk of misstatement and the potential reduced reliability of financial statements may ultimately result in a higher cost of capital. Given these considerations, it is not clear whether the estimated savings resulting from an exemption from this requirement truly outweigh the cost.

Complexity of Filing Requirements

Over the years, the Commission has developed a disclosure system which provides for reduced disclosure requirements and different periodic reporting timetables for certain smaller registrants. We believe the proliferation of filer categories (e.g., smaller reporting company, non-accelerated filer, emerging growth company, etc.) that all have different filing requirements has complicated the compliance process. The proposal makes the determination of a registrant's filing requirements (and transition rules) inherently more complex by adding a revenue threshold to the accelerated filer definition. Accordingly, the Commission may wish to consider simplifying the definitions of a non-accelerated, accelerated, and large accelerated filer.

If the amendments are adopted as proposed, we believe interpretive guidance may be necessary to address how revenue-related restatements or other changes that cause a registrant's revenues to subsequently cross over the initial or transition thresholds impact the determination of filer status (i.e., what are the consequences for a registrant that did not obtain an ICFR audit for a particular year, but subsequently restates its financial statements which reflect revenues in excess of the thresholds requiring an ICFR audit?



Oftentimes, there are practical limitations that would prevent an auditor from subsequently performing all the audit work necessary to opine on internal controls in this situation).

Effective Date

We encourage the Commission to provide explicit guidance about the timing of rule’s adoption and the related effective date. As the proposed amendments may significantly affect the audit approach for the impacted registrants in the year of transition, we encourage the Commission to provide ample notice for both issuers and auditors to adjust to changes in the requirements.

Other

Consistent with the views we expressed in our [comment letter](#) on the Smaller Reporting Company Definition, we support extending the filing deadlines for smaller reporting issuers. Considering the complexity of today’s accounting standards and volume of disclosure requirements, we believe the benefits of allowing these smaller reporting companies the extra time to file periodic reports would outweigh the benefit of disseminating the information 15 days earlier for annual reports on Form 10-K and 5 days earlier for interim reports on Form 10-Q.

We appreciate this opportunity to express our views to the Commission. We would be pleased to answer any questions the Commission or its staff might have about our comments. Please contact Tim Kviz, National Assurance Managing Partner - SEC Services, at [REDACTED] or via e-mail at [REDACTED], or Christopher Tower, National Managing Partner - Audit Quality and Professional Practice Leader, at [REDACTED] or via e-mail at [REDACTED].

Very truly yours,

BDO USA, LLP

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