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Mr. Brent J. Fields
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

8 September 2016

**Re: Amendments to Smaller Reporting Company Definition (Release No. 33-10107;
34-78168; File No. S7-12-16)**

Dear Mr. Fields:

Ernst & Young LLP is pleased to comment on the proposed amendments to the definition of smaller reporting company (the proposal) issued by the Securities and Exchange Commission (SEC or the Commission). The proposal would raise the financial thresholds in the smaller reporting company definition and thereby extend scaled disclosure requirements to a broader pool of registrants.

We previously recommended that the Commission consider adopting disclosure objectives that would mitigate the need for scaling disclosure requirements based on the size or nature of a reporting entity.¹ In this letter, we provide responses to two questions that were posed in the proposal.

Question 16

If we increase the public float threshold in the smaller reporting company definition as proposed, should we also increase the public float threshold in the accelerated filer definition? Why or why not?

Response:

The SEC is proposing to increase the pool of registrants that would qualify for the scaled disclosure requirements by amending the definition of a smaller reporting company while retaining the current definitions for accelerated and large accelerated filers. If the SEC were to increase the public float threshold in the accelerated filer definition to align it with the higher public float threshold in the proposed definition of a smaller reporting company, registrants that would cease to be accelerated filers would be exempt from Section 404(b) of the Sarbanes-Oxley Act of 2002 that requires auditor attestation on the effectiveness of the issuer's internal control over financial reporting.

If, based on comments received on the proposal, the Commission is persuaded that further consideration should be given to conforming the public float threshold in the accelerated filer definition with a higher public float threshold in the smaller reporting company definition, we strongly recommend that the SEC undertake a separate rule proposal, economic analysis and request for public comment before deciding whether to adopt such a consequential change.

¹ For more details, see our 21 July 2016 comment letter on the SEC concept release on business and financial disclosures required by Regulation S-K (Release No. 33-10064; 34-77599; File No. S7-06-16).



Question 18

If we increase the revenue threshold in the smaller reporting company definition as proposed, should we also increase the threshold in Rule 3-05 of Regulation S-X? Why or why not?

Response:

The SEC rules on smaller reporting company regulatory relief and simplification adopted in 2007 amended Regulation S-X Rule 3-05 to allow a company that acquires a business with revenues of less than \$50 million in its most recent fiscal year² to omit the earliest of three years of financial statements when the results of the significance tests would otherwise require three years. The relief aligned the maximum number of years of annual audited financial statements required under Rule 3-05 for businesses acquired (or to be acquired) with the two years of annual audited financial statements required under Rule 8-02 for registrants that qualify as smaller reporting companies by applying the same revenue threshold of \$50 million to the registrant and to the acquired business financial statements for the most recently completed fiscal year.³

We believe that this alignment should be retained to maintain the objective the Commission expressed when it adopted the 2007 S-X Rule 3-05 relief. Therefore, if the Commission amends the definition of a smaller reporting company as proposed to include registrants with no public float and net annual revenues of up to \$100 million, we believe that it should also amend S-X Rule 3-05 to require a maximum of two years of annual audited financial statements for a significant acquired business with annual revenues of up to \$100 million.

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We would be pleased to discuss our comments with the Commission or its staff at your convenience.

Yours sincerely,

Copy to: Wesley Bricker, Interim Chief Accountant, Office of Chief Accountant
Keith Higgins, Director, Division of Corporation Finance
Mark Kronforst, Chief Accountant, Division of Corporation Finance

² Paragraph (b)(2)(iv) of Rule 3-05 of Regulation S-X.

³ A similar alignment at the \$25 million revenue threshold in the small issuer definition, was first adopted in October 1996 in Release 33-7335, *Streamlining Disclosure Requirements relating to Significant Business Acquisitions*.