August 4, 2016

Brent J. Fields
Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-0609

Re: File No. S7-12-16: Amendments to Smaller Reporting Company Definition

To whom it may concern:

As CEO of CONNECT, I know from personal experience how access to capital is the lifeblood of the startup economy. It is well known that San Diego is a hub for biotechnology—each day companies in the region are making breakthrough advancements that change lives and make San Diego one of the most vibrant regions in the country. CONNECT is a regional program that catalyzes the creation of innovative life science products in the region by linking inventors and entrepreneurs with the resources they need for success. For the past 31 years, CONNECT has assisted in the formation and development of more than 3,000 companies.

Common sense regulations are of critical importance to our emerging biotech companies. They depend on the public markets for capital, and their investors expect them to dedicate that capital to research rather than costly compliance burdens that may not be relevant to their bottom line. CONNECT applauds the SEC for proposing amendments to the smaller reporting company (SRC) definition that would encompass a wider range of emerging business for whom regulatory costs present a significant burden to growth.

However, we believe that the SEC missed an opportunity to make parallel reforms to the non-accelerated filer definition and reduce our companies’ regulatory costs under Sarbanes-Oxley (SOX) Section 404(b). SOX Section 404(b) requires a costly external audit of a company’s internal controls. For many growing biotechs, that audit represents over $1 million in innovation capital diverted from the lab.

Non-accelerated filers are exempt from Section 404(b), but that definition excludes many small businesses whose investors would much prefer that their funds remain focused on science. We believe that the non-accelerated filer public float threshold should be raised to $250 million to match the proposed SRC definition. We also believe that both the SRC and non-accelerated filer definitions should include an alternate revenue test for highly valued pre-revenue innovators. These changes would end the onerous requirement that growing companies pay for a costly internal controls audit that diverts funds from their core business.

CONNECT appreciates the SEC’s attention to these important issues, and we are hopeful that the updated SRC and non-accelerated filer definitions will accurately classify companies and provide significant regulatory relief to the hundreds of growing business the shape the economic future of the San Diego region.

Sincerely,

Greg McKee
CEO, CONNECT