



August 24, 2016

Secretary,  
Security and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-1090

Re: File Number S7-12-16

Dear Secretary:

The Small Business Financial and Regulatory Affairs Committee (SBFRC) of the Institute of Management Accountants (IMA) appreciates the opportunity to express our views on the proposed amendments to the definition of a smaller reporting company.

The IMA is a global association representing over 80,000 accountants and finance team professionals. Our members work inside organizations of various sizes, industries and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities and multinational corporations.

The SBFRC addresses issues that impact small and medium-sized organizations. On behalf of IMA's members, the SBFRC engages and suggests solutions to standard-setters and regulatory agencies such as the Financial Accounting Standards Board (FASB), Securities and Exchange Commission (SEC), International Accounting Standards Board (IASB), Small Business Administration, American Bankers Association, Internal Revenue Service and others. Information on the committee and past comment letters can be found at [www.imanet.org/about-ima/advocacy-activity/small-business-financial-and-regulatory-affairs-committee](http://www.imanet.org/about-ima/advocacy-activity/small-business-financial-and-regulatory-affairs-committee).

### **Summary**

The purpose of the proposed regulation is to amend the definition of a smaller reporting company. This would immediately expand the number of registrants that qualify under this classification by a count of 782. The intended purpose of the proposed change is to reduce compliance costs for smaller registrants while maintaining investor protection. As an interesting note, the majority of the new registrants are in the banking and pharmaceutical products industries. The committee has limited experience in either of those industries.

In effect, the new definition would return the percentage of smaller reporting companies to close to that which was in effect when the rules and regulations were first enacted. The percentage of registrants that would qualify as smaller reporting companies under the proposal would be 41.8% compared to 42% that qualified under the public threshold when the Commission first established the definition of smaller reporting companies.



This last comparison begs the question as to whether future amendments would be necessary if the number of registrants again changes and consequently the percentage of smaller reporting companies once again also changes.

### **Existing standards**

- Registrants with less than \$75 million in public float
- Registrants with zero public float and annual revenues of less than \$50 million during the most recently completed fiscal year

### **Proposed standards**

- Registrants with less than \$250 million in public float
- Registrants with zero public float and annual revenues of less than \$100 million during the most recently completed fiscal year.

By raising the financial thresholds in the smaller reporting company definition the Commission would be increasing the number of smaller registrants that are eligible to deliver scaled disclosures to their investors. This has been requested in the past by the ACSEC (Advisory Committee on Small and Emerging Companies) and the Small Business Forum (SEC Governmental-Business Forum on Small Business Capital Formation).

We have noted a number of immediate benefits. There are some that may also materialize at a future date. These include:

- An expected reduction in total external and internal costs since the registrant company would not be required to prepare compensation discussion & analysis (CD&A).
- Reduction in audit expenses.
- An increase in Capital Formation.

This could also be expected to provide a benefit to the newly classified smaller registrants to the extent that savings from previously expended compliance costs could be productively deployed in other areas.

There is some concern over a probable increase in information asymmetry stemming from the reduced reporting requirements for a larger population of smaller companies. Stakeholders may need to seek a means of gathering the information that had been previously provided by prior disclosure requirements.

The SEC proposal alludes to a significant reduction in expenses which would be spread out over a number of different factors and existing Exchange Act reports (as noted below), some being obvious and others less so. Cost savings would arise from the decreased effort necessary for the preparation of



reports and the time required by senior management to accomplish this task, as well as decreased effort necessary for the related supervision and review of the preparation. Reports noted are:

- Form 10-K
- Form 10-Q
- Schedule 14A
- Schedule 14C
- Form S-1
- Form 10
- Form S-3
- Form S-4
- Form A-11

### **In Conclusion**

In our opinion this change in classification is a positive step because it will lessen the regulatory reporting burden on a number of companies newly labeled as small. Given the fact that each company still retains the right to continue to report or choose to not report, there does not appear to be a downside to the new criteria. Each registrant would remain liable for their own disclosures. In addition to the information expressly required to be included by the rules, a reporting organization would also need to include additional disclosures, as required, to keep any statements from being misleading.

The possibility of increased costs for stakeholders arising from increased risk caused by a reduction in disclosures which had been previously required can be minimized by providing additional information on those specific occasions where it would be required.

We are available to discuss our views. Please see Appendix A for responses to your inquiries.

Respectfully,

A handwritten signature in cursive script that reads "Gerald S. Silberstein".

Gerald S. Silberstein, PhD, CPA, MBA, CMA  
Chair, Small Business Financial and Regulatory Affairs Committee  
Institute of Management Accountants



## APPENDIX A

The Agency has asked for comments on a number of issues. The issues and our responses are framed below.

- Evaluation of whether the collection of information is necessary for the performance of our functions, including whether the information will have practical utility.
  - There is a trade-off since the information is useful even when collected from small startup companies but it is offset by the burden of preparing the information. Our recommendation is that the proposed adjustment is fair.
- Evaluation of the accuracy of our estimate of the burden of collections of information.
  - The details provided as the basis for the cost reduction estimations appear to be thorough and specific.
- Determine whether there are ways to enhance the quality, utility, and clarity of the information to be collected.
  - The burden of information provided remains with each registrant. Those that choose to curtail their reporting requirements may still be required to provide additional information when attempting to enter into capital transactions in which a higher degree of scrutiny may be required.
- Evaluate whether there are ways to minimize the burden of the collection of information on those who respond, including through the use of automated collection techniques or other forms of information technology.
  - A requirement for registrants to submit information using XBRL may facilitate the evaluation of data provided and design of financial reports which are deemed material and cost justified.
- Evaluate whether the proposed amendments would have any effect on any other collection of information not previously identified in this section. The list of reports appear to be rather inclusive.
  - We are not aware of any collection of information that is being negatively affected.