CENTER FOR AUDIT QUALITY
Serving Investors, Public Company Auditors & the Markets

September 17, 2007

Ms. Nancy M. Morris
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Dear Ms. Morris:

RE: File Number S7-15-07
Smaller Reporting Company Regulatory Relief and Simplification

The Center for Audit Quality (CAQ) is an autonomous public policy organization serving investors, public company auditors and the capital markets and is affiliated with the AICPA. The CAQ's mission is to foster confidence in the audit process and to aid investors and the markets by advancing constructive suggestions for change rooted in the profession's core values of integrity, objectivity, honesty and trust. Based in Washington, D.C., the CAQ consists of approximately 800 member firms that audit or are interested in auditing public companies. We welcome the opportunity to share our views on the Securities and Exchange Commission (SEC or the Commission) File Number S7-15-07, Release Number 33-8819, *Smaller Reporting Company Regulatory Relief and Simplification* (the Proposed Rules).

We commend the Commission on proposing rules to provide reporting relief and simplification to smaller public companies. Below are the CAQ's responses to certain questions included in the Proposed Rules.

The Proposed Rules would expand the availability of the scaled disclosure and reporting requirements for "small business issuers" to a new category of companies termed "smaller reporting companies". Smaller reporting companies would be defined as those companies with a public float of less than $75 million. Companies that do not have a public float as defined or that are unable to calculate it, would be eligible for scaled treatment if their annual revenues are below $50 million. The Commission seeks comment on the appropriateness of its proposed definition of smaller reporting company.

We support the Commission's proposal to set the initial ceiling for smaller reporting companies at $75 million in public float. The SEC currently uses the $75 million public float threshold to determine accelerated filer status and issuers already are required to disclose their public float on the cover page of their Exchange Act annual reports. Using the same public float benchmark that already is being used and disclosed by issuers should simplify the eligibility determination.

We note that the Proposed Rules would significantly increase the number of companies eligible for scaled disclosure and reporting, although the total U.S. equity market capitalization of these companies would remain quite small. We believe that the proposed definition of smaller reporting companies will allow the Commission to meet its goal of maintaining investor protection while providing flexible compliance requirements for smaller companies, which might encourage more smaller company participation in the United States capital markets.

The Proposed Rules indicate that the $75 million public float and $50 million annual revenue ceiling would be adjusted for inflation every five years. We support periodically inflation-indexing of the quantitative threshold used to define a smaller reporting company. However, we recommend that the Commission also provide for similar inflation-indexing of the public float threshold set forth in its definition of an accelerated filer, so that there would be continued symmetry between the two definitions.

The Proposed Rules would eliminate Regulation S-B and incorporate its substantive provisions into Regulation S-K and Regulation S-X. The Commission seeks comment as to whether such integration is appropriate and whether this would simplify the disclosure obligations of smaller companies.

The AICPA previously noted in an April 3, 2006 letter on the *Exposure Draft of the Final Report of Advisory Committee on Smaller Public Companies*, that incorporating the scaled disclosure accommodations currently available to small business issuers under Regulation S-B into Regulation S-K and Regulation S-X, would be in the public interest. The CAQ continues to believe that eliminating Regulation S-B and the related small business forms, and integrating the Regulation S-B requirements into Regulations S-K (and Regulation S-X with respect to Item 310 of Regulation S-B), would create a single set of registration and reporting rules and forms, thus reducing regulatory complexity for smaller public companies.

However, in contrast to the item-by-item integration proposed, we recommend that the rules applicable to smaller reporting companies be segregated within Regulation S-K and Regulation

S-X. Maintaining a separate section within these regulations labeled "Smaller Reporting Company Requirements" would provide a single reference point for smaller reporting companies and would simplify their compliance.

Currently, Regulation S-B is only available to U.S. and Canadian issuers. The Proposed Rules would allow a foreign private issuer that qualifies as a smaller reporting company to provide scaled disclosures, but only if it presents its financial statements using U.S. GAAP. The Commission seeks comment on whether it is appropriate to require U.S. GAAP for foreign private issuers and other foreign issuers who may want to take advantage of the smaller reporting company requirements.

We support the Commission's proposal to allow any foreign private issuer to qualify as a smaller reporting company. However, the Proposed Rules would require a foreign private issuer that elects to follow the reduced financial statement requirements of Item 310 to present its financial statements in conformity with U.S. GAAP. As a result, a Canadian small business issuer that wishes to continue to take advantage of Item 310's reduced financial statement requirements and that files Canadian GAAP financial statements with an accompanying reconciliation to U.S. GAAP, would instead be required to provide U.S. GAAP financial statements. We strongly encourage the Commission to continue to allow these smaller Canadian issuers to file only two years of reconciled Canadian GAAP financial statements.

Moreover, we see no compelling reason to require any eligible foreign private issuer to provide U.S. GAAP financial statements in order to take advantage of Item 310's financial statement relief. For example, under current SEC regulations (e.g., 4-01(a)(2) of Regulation S-X), a foreign private issuer may choose to file domestic forms with financial statements prepared using a comprehensive body of accounting principles other than those generally accepted in the United States, provided it reconciles to U.S. GAAP. We do not believe the SEC should establish a requirement for a foreign smaller reporting company that is more burdensome than that required for larger foreign private issuers. Accordingly, we recommend that any foreign private issuer, including a Canadian issuer, that qualifies as a smaller reporting company should be eligible for Item 310's financial statement relief, irrespective of the basis of preparation of its primary financial statements (subject to applicable reconciliation requirements).

The SEC Advisory Committee on Smaller Public Companies believed that a second year of audited balance sheet data would provide investors with a basis for comparison with the current period, without substantially increasing costs. The Commission is requesting

comment on whether smaller reporting companies should be required to provide two years of audited balance sheet data in annual reports and registration statements.

The CAQ recommends that the SEC require smaller reporting companies to provide two years of audited balance sheet data in annual reports and registration statements for the reasons cited by the Advisory Committee. We believe that requiring a second year of audited balance sheet data for smaller public companies provides investors with a basis for comparison with the current period, with minimal costs.

Further, we note that IFRS require comparative financial information, except where a Standard or interpretation requires otherwise. Requiring two years of balance sheet data would not only provide meaningful comparative information to investors, but also would align the smaller reporting company rules with current IFRS requirements.

The Commission requests comment on whether there are provisions in current Regulation S-B that should be carried over for smaller reporting companies into Regulation S-K, but that have not been proposed to be carried over.

It appears that some of the disclosures currently required by Item 102 of Regulation S-B would not be carried over to Regulation S-K. We recommend that the Commission consider whether to retain the related disclosure requirements for smaller reporting companies if the disclosures otherwise are required of other registrants.

The Commission seeks comment on whether there are current Regulation S-B items that are proposed to be carried over to Regulation S-K and Regulation S-X that may be inappropriate for the larger group of companies defined as smaller reporting companies.

The CAQ does not believe that there are any items being carried over from Regulation S-B to Regulation S-K and Regulation S-X that would be inappropriate for the larger group of companies defined as smaller reporting companies.

The SEC proposal would allow smaller reporting companies to choose, on an item-by-item or "a la carte" basis, to comply with either scaled disclosure requirements made available in Regulation S-K for smaller reporting companies or the disclosure requirements for other

companies in Regulation S-K. A smaller reporting company would have the option to take advantage of the smaller reporting company requirements for one, some, all or none of the items, at its election, in any one filing. The Commission seeks comment as to whether this "a la carte" approach should be adopted.

The Proposed Rules would allow a smaller reporting company to choose, on an item-by-item, or "a la carte" basis, whether to comply with minimum disclosure requirements specified in Regulation S-K for smaller reporting companies or the disclosure requirements otherwise applicable to other public companies in Regulation S-K. In all cases, the smaller reporting company disclosure provisions in Regulation S-K would appear to establish the minimum disclosure requirements, but Rule 12b-20 still would require a smaller reporting company to provide any additional information, beyond those minimum disclosure requirements, in order to avoid a misleading presentation.

Notwithstanding the applicable minimum requirements, a smaller reporting company should be encouraged to provide additional, informative disclosures. In those circumstances (whether a smaller reporting company provides the full disclosures otherwise required by Regulation S-K, or more, or less), it should be encouraged to provide such disclosures consistently in succeeding reporting periods in order to respond to investor expectations and allow period-to-period comparisons.

The Commission seeks comment as to whether all companies should be required to check a box on the cover page of the filings indicating "smaller reporting company" when they meet the eligibility criteria, or only when the company chooses to comply with at least one item in Regulation S-K scaled for smaller reporting companies.

We agree with the Commission's proposal to require all companies meeting the definition of a smaller reporting company to check a box on the cover page of their filings.

The Commission seeks comment as to whether there are ways in which the scaled disclosure and reporting requirements could be improved to meet the needs of their investors, while continuing to consider investor protection.

Rule 3-05 of Regulation S-X requires the inclusion of financial statements of businesses acquired or to be acquired (target company) in registration statements and Forms 8-K. The number of years of audited financial statements to be presented for a business acquired or to be acquired is determined using the conditions specified in the definition of significant subsidiary in Rule 1-02(w) of Regulation S-X. If any of the conditions as defined in 1-02(w) exceeds the 50% threshold, audited financial statements of the target company must be provided for three years; however, if the net revenues reported by the target company for the latest fiscal year are less than $25 million, the earliest of the three fiscal years may be omitted pursuant to Rule 3-05(4)(b)(2)(iv).

We recommend that the $25 million revenue threshold referred to above be raised to $50 million to be consistent with the definition proposed for smaller reporting companies.

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We appreciate the opportunity to comment on the Proposed Rules and would welcome the opportunity to meet with you to clarify any of our comments.

Sincerely,

Cynthia M. Fornelli
Executive Director
Center for Audit Quality

cc: SEC
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