KNOW GREATER VALUE™

PKF O'CONNOR DAVIES
ACCOUNTANTS AND ADVISORS

Accounting & Auditing Update

SEC Definition of "Smaller Reporting Company" Expected in Fall of 2018

By Jonathan Zuckerman, CPA, Partner

The Securities and Exchange (SEC) plans to finalize a rule in the fall of 2018 to revise the regulatory definition of "smaller reporting company" and let more companies submit filings with fewer disclosures. The revision would allow more companies to file registration statements and periodic reports with less in the way of disclosures. The market regulator's timing for the final rule appeared in the latest update to its rulemaking agenda.

The current threshold is set at $75 million in public float. In June 2016, the SEC proposed raising it to $250 million which would allow companies with a public float of up to $250 million to qualify as smaller reporting companies.

Let's look at what an increase in the public float threshold would mean and other potential related changes being considered by the SEC.

Then and Maybe Soon

In 2015, about 32 percent of companies registered with the SEC had less than $75 million in public float, compared to 42 percent when the smaller reporting company definition was set in 2007.

If the $250 million threshold is adopted, 42 percent of public companies will qualify as smaller reporting companies and be eligible for a number of exemptions from certain requirements of:

Regulation S-K: which lays out the disclosure requirements for registration statements and annual and quarterly reports, and

Regulation S-X: which sets the form and content of financial statements in SEC filings.

Regulation S-K: Smaller Reporting Companies

Smaller reporting companies are exempt from certain Regulation S-K requirements of the larger reporting companies including the disclosure of stock performance graphs, ratios of earnings to fixed charges, and compensation committee reports.

Further, smaller reporting companies need to provide executive compensation data for only three named executive officers instead of the five executives on which large companies have to report.

They also need to include two years of comparison in the management's discussion and analysis (MD&A) section of a regulatory filing, while larger companies have to prepare three years.

Regulation S-X: Smaller Reporting Companies

Smaller reporting companies need to provide under Regulation S-X only two years of income and cash flow statements, instead of three that larger companies must provide.

No Exemption

The SEC's Advisory Committee on Small and Emerging Companies, which had recommended the increased market value threshold, welcomed the proposal to increase the threshold to $250 million. However, it was disappointed that more companies will not be exempt from the auditor attestation of management's internal controls as required by Section 404(b) of the Sarbanes-Oxley Act of 2002 (SOX 404). [Currently, companies with a public float of less than $75 million are exempted.]

Definition of "Accelerated Filers"

Public companies often complain about the costs of complying with SOX 404. The small company panel recommended that the SEC change the definition of "accelerated filers," which currently are companies with a market value between $75 million and $700 million. The advisory committee recommended raising the minimum threshold to $250 million. In comment letters to the SEC, businesses also backed the increase.

Contact Us

Should you have any questions regarding this matter, please feel free to contact one of the PKF O'Connor Davies partners or contact Jonathan Zuckerman, CPA, Partner at jzuckerman@pkfod.com or 646.699.2842.

About PKF O'Connor Davies

PKF O'Connor Davies, LLP is a full-service certified public accounting and advisory firm with a long history of serving clients both domestically and internationally. With roots tracing to 1891, nine offices in New York, New Jersey, Connecticut and Maryland, and more than 700 professionals, the Firm provides a complete range of accounting, auditing, tax and management advisory services. PKF O'Connor Davies is ranked 28th on Accounting Today's 2017 "Top 100 Firms" list and is recognized as one of the "Top 10 Fastest-Growing Firms." PKF O'Connor Davies is also recognized as a "Leader in Audit and Accounting" and is ranked among the "Top Firms in the Mid-Atlantic," by Accounting Today. In 2017, PKF O'Connor Davies was named one of the 50 best accounting employers to work for in North America, by Vault.

PKF O'Connor Davies is the lead North American representative in PKF International, a global network of legally independent accounting and advisory firms located in 440 locations, in 150 countries around the world.