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Office of the Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090

Re: File No. S7-2026-18
Enhancement of Emerging Growth Company Accommodations and Simplification of Filer Status for Reporting Companies

Dear Office of the Secretary:

We appreciate the opportunity to comment on the Commission's proposal regarding filer status and Emerging Growth Company (EGC) accommodations. Overall, we support the Commission's objective of simplifying the filer status framework and reducing unnecessary complexity within the reporting system. We believe modernization is appropriate because the existing framework has evolved through a series of legislative and regulatory changes that have resulted in overlapping classifications, differing eligibility criteria, and transition provisions that can be difficult for registrants and other stakeholders to navigate. We also recognize that the public float thresholds underlying the current framework were established many years ago and may no longer fully reflect the size, composition, and dynamics of today's capital markets.

We likewise support the Commission's efforts to promote capital formation and facilitate access to the public markets. Appropriately calibrated reductions in regulatory burden can advance those objectives while preserving the quality and reliability of public company reporting. However, as more fully explained below, we believe the proposal requires a more robust assessment of the costs and benefits underlying several of the proposed changes. As proposed, approximately 81% of registrants would qualify as non-accelerated filers (NAFs) leaving a significantly reduced portion of the reporting population subject to accelerated reporting deadlines, auditor attestation of internal control over financial reporting (ICFR), and certain related reporting requirements. While we support the Commission's objective of simplifying the framework, we believe additional analysis of the costs, benefits, and broader market implications of this policy outcome would help ensure an appropriate balance among the objectives of modernization, capital formation, and investor protection.

Our comments focus on several areas where we believe additional analysis would be appropriate, including the filer status framework, the effects of substantially reducing the population of companies subject to ICFR attestation requirements, the potential broader implications for market expertise and reporting oversight, the proposed seasoning period for newly public companies, and the expansion of scaled disclosure and EGC accommodations.

Simplification of Filer Status

We agree that the current filer status framework has become increasingly complex over time and that simplification is warranted. We also recognize that the public float thresholds underlying filer status determinations were established many years ago. Inflation, increased market capitalization levels, and the growth in public company valuations have reduced the relative significance of the existing thresholds. Accordingly, a framework that periodically incorporates inflation-related adjustments may be warranted in today's environment.

Notwithstanding our support for modernization and simplification, we believe the Commission's analysis requires further evaluation of whether the proposed thresholds appropriately identify the population of issuers that should remain subject to enhanced reporting and assurance requirements. Beyond updating the public float thresholds, the proposal would materially redefine the population of issuers subject to enhanced reporting requirements, including accelerated filing deadlines and auditor attestation of ICFR. Accordingly, we view the proposal as involving not only an adjustment of historical thresholds to reflect changes in market conditions, but also a broader policy determination regarding the scope of issuers that should remain subject to these requirements. While the proposing release places significant weight on restoring the percentage of issuers and aggregate public float encompassed by the large accelerated filer (LAF) definition to levels that existed when the definition was introduced in 2005, we do not believe that historical comparison, standing alone, provides a sufficient basis for extending relief from those requirements to such a broad segment of the public company population. The regulatory and operating environment facing public companies today differs significantly from that of 2005. At that time, the requirements of Section 404(b) of the Sarbanes-Oxley Act (Section 404(b)) were newly implemented, companies and auditors were still developing processes and controls to comply with the framework, and regulators, issuers, and investors had limited experience with its costs and benefits. In contrast, public companies have now operated under these requirements for more than two decades, allowing internal control frameworks, governance practices, and audit methodologies to mature substantially. Moreover, the risk landscape has evolved considerably, with registrants increasingly reliant on complex information technology environments, third-party service providers, digital business processes, artificial intelligence, and interconnected systems that create new and more sophisticated risks related to cybersecurity, data integrity, and financial reporting.

In our view, the more fundamental policy question is not how many issuers are subject to these requirements, but which issuers possess the scale, complexity, investor following, reporting risk profile, and organizational capabilities that continue to justify their application and related costs. The proposing release focuses largely on public float coverage. We believe it may also be helpful to consider more directly whether, and how, those broader issuer characteristics should inform the calibration of the threshold(s) used to determine filer status, including whether the scaled reporting requirements should apply to such a broad segment of the public company population. Additional analysis in this area could help inform whether the investor-protection benefits associated with accelerated filing deadlines, ICFR auditor attestation, and related disclosure obligations continue to justify their application to issuers beyond those that would remain covered under the proposal.

We support updating the existing public float thresholds to reflect changes in market conditions and would support consideration of inflation adjustments as one means of doing so. However, we believe any revised framework should be grounded in a clear analysis of the factors listed above to determine the appropriate threshold(s) for which enhanced reporting and assurance requirements continue to be appropriate. In our experience, many issuers that would no longer be subject to such requirements under the proposal possess the resources, organizational maturity, and reporting infrastructure associated with larger public companies and are followed by investors who benefit from the shorter filing deadlines, auditor attestation of internal control over financial reporting, and related reporting obligations currently applicable to those issuers. These requirements continue to promote the timely availability of high-quality financial information, reinforce confidence in the reliability of public company reporting, and support informed investment and capital allocation decisions.

Internal Control Over Financial Reporting

We believe auditor attestation on ICFR serves as an important independent assessment of the effectiveness of a company's internal controls and provides investors with additional confidence regarding the processes supporting financial reporting. In our experience, the requirement to undergo an ICFR audit promotes stronger governance, improved control documentation, enhanced management accountability, more timely remediation of deficiencies, and greater engagement by audit committees and boards of directors regarding financial reporting risks. The Section 404(b) process frequently serves as an important mechanism for elevating control-related matters to senior management and audit committees, helping to focus attention on financial reporting risks, identified deficiencies, remediation plans, and the overall effectiveness of the control environment. The integrated audit process often leads to improvements in the overall control environment and contributes to the reliability of financial reporting. Stronger control environments may also reduce the risk of financial reporting errors, restatements, and other reporting deficiencies that can adversely affect investors.

In addition, the requirement for independent auditor attestation not only helps identify control deficiencies but also creates incentives for timely remediation and sustained management focus on maintaining effective controls. The prospect of external evaluation often accelerates remediation efforts and reinforces accountability for addressing identified weaknesses before they result in financial reporting errors. Although management would continue to be responsible for establishing and evaluating internal controls, the removal of an independent attestation requirement may reduce the level of rigor that historically has been associated with designing, documenting, testing, and monitoring controls. An independent auditor's involvement frequently serves as a catalyst for ongoing improvements in control effectiveness and remediation efforts.

We also believe the importance of effective ICFR has increased as financial reporting processes have become increasingly dependent on technology. Public companies today rely extensively on complex information systems, automated processes, third-party technologies, cloud-based applications, and emerging tools such as artificial intelligence to support financial reporting and related control activities. While these technologies may improve efficiency and scalability, they also introduce new risks relating to data integrity, system governance, cybersecurity, change management, model oversight, and the design and operation of automated controls. In this environment, independent auditor attestation provides an important mechanism for evaluating whether management has appropriately designed and maintained controls responsive to these evolving risks. As technology dependencies continue to expand, the value of robust control frameworks and independent oversight may increase correspondingly.

For these reasons, we are concerned that extending NAF status to approximately 81% of all registrants (which includes the 26.7% of all registrants that would be newly exempt) would eliminate these benefits for many companies that are sizeable, mature, and widely held. The proposal reduces the population of issuers for which the ICFR audit serves as a formal driver of management accountability, audit committee oversight, and timely control remediation. We believe these observations further emphasize the need for a deeper cost-benefit analysis to evaluate the effects of eliminating auditor attestation requirements on ICFR for a substantial number of mature and well-established public companies.

Separately, we believe the proposal may overestimate the extent of cost savings that certain registrants would realize from the elimination of the requirement for auditors to perform an ICFR audit. Under the PCAOB auditing standards, the ICFR audit and the audit of the financial statements are conducted as a single integrated audit because of their close interconnectivity. When auditors can rely on effective controls, they may and frequently do reduce the nature, timing, or extent of substantive audit procedures. Conversely, when controls are not tested or cannot be relied upon, additional or more extensive substantive procedures are necessary to obtain sufficient appropriate audit evidence to support the financial statement opinion.

For many registrants, auditors may continue to test controls because doing so remains the most effective and efficient means of obtaining evidence supporting the financial statement audit. Where controls are not tested or cannot be relied upon, auditors may be required to perform expanded transaction testing, increased sample sizes, additional detailed testing of account balances and disclosures, enhanced procedures over estimates and judgments, expanded confirmation procedures, and additional year-end testing. We note that advances in technology do not necessarily reduce the need for auditor involvement in evaluating controls. Auditors must obtain an understanding of and, where appropriate, test technology-related controls to obtain sufficient appropriate audit evidence, particularly where significant processes are highly automated or supported by complex information technology environments. As a result, eliminating the requirement for an ICFR audit does not eliminate the requirements for auditors to understand, evaluate, and, in certain circumstances, test the design and operating effectiveness of controls. Instead, some audit effort may shift to expanded substantive procedures necessary to support the financial statement audit, which may reduce the extent of any anticipated cost savings from eliminating the ICFR audit.

Additionally, we observe that certain industries, such as insured depository institutions, have requirements to obtain auditor attestations on the effectiveness of internal controls, similar to the requirements of Section 404(b). Section 36 of the Federal Deposit Insurance Act and Part 363 of the Federal Deposit Insurance Corporation's regulations require annual reports from insured depository institutions with $5 billion or more in consolidated total assets to include management's assessment of the effectiveness of internal control over financial reporting and an independent public accountant's report on the effectiveness of the institution's internal control over financial reporting. Because this threshold is based on consolidated total assets rather than public float, it is not directly comparable to the threshold in the proposal and may result in many registrants in certain industries remaining subject to auditor attestation requirements even if they would no longer qualify as LAFs under the SEC's proposed framework. Consequently, the proposal could create further industry-specific disparities and may not produce the anticipated cost-saving and burden-reduction benefits for a significant number of registrants.

Simplification of Transition Provisions

We support the proposed transition framework for filer status determinations. The proposal would significantly simplify the assessment of transitions between filer statuses by replacing the current, more complex transition provisions with a clearer and more predictable approach. We also support the use of an average stock price over the final ten trading days of the issuer's second fiscal quarter, which should help mitigate the effects of short-term market volatility that may not reflect an issuer's longer-term size or market significance. In addition, requiring a threshold to be met, or not met, for two consecutive annual determinations before a change in filer status occurs should reduce the likelihood of frequent status changes resulting from temporary fluctuations in public float. Overall, we believe the proposed approach would improve the operability, stability, and transparency of filer status determinations.

Five-Year Seasoning Period for Newly Public Companies

We believe the proposed five-year seasoning period before qualifying registrants become subject to LAF requirements is too long. Generally, we do not believe a company that exceeds a public float threshold for which it would otherwise qualify as LAF requires five years to adjust to the disclosure and filing requirements of a large public company. Such companies generally possess substantial financial resources, sophisticated accounting and finance functions, experienced management teams, more established governance structures, and access to external advisors capable of supporting compliance efforts. As a result, we do not believe it is appropriate for these companies to remain eligible for NAF accommodations for five years after their initial public offering.

The proposed seasoning period would allow very large companies to continue benefiting from accommodations that historically have been intended to facilitate growth and transition. In our view, this outcome would alter the balance of companies subject to the reporting obligations designed for the largest and most widely held public companies. Moreover, a five-year seasoning period could result in similarly sized companies (and in some cases, market capitalizations in the high billions or even trillions of dollars) being subject to significantly different reporting requirements based solely on timing. Such an outcome appears to undermine the objective of aligning reporting obligations with company size and market significance.

We believe the Commission should consider whether the proposed two-year transition period to enter LAF status may strike a more appropriate balance, even for newly public companies. The two-year period provides more time than under today's framework and would allow such companies sufficient time to enhance governance structures, compliance processes, reporting systems, and internal control environments while ensuring that large, seasoned companies become subject to the reporting expectations associated with their size within a reasonable timeframe. We note that it is not uncommon for newly public companies to identify and disclose material weaknesses in internal control over financial reporting in connection with, or shortly following, their initial public offerings, reflecting the challenges associated with transitioning to the reporting and governance expectations of the public company environment. Newly public companies may also be more susceptible to financial reporting errors as they scale their finance and compliance functions and adapt to the complexities of public company reporting. In this context, delaying auditor attestation requirements for an extended period could postpone an important mechanism for strengthening internal controls and enhancing the reliability of financial reporting. By contrast, a two-year transition period would provide companies with meaningful time to mature their control environments while bringing larger issuers within the scope of the Section 404(b) requirements early enough to promote investor protection, support confidence in reported financial information, and encourage the timely remediation of control deficiencies that may emerge during a company's early years as a public company.

Extension of Scaled Disclosure Accommodations

While we generally support an approach that extends SRC disclosure accommodations to NAFs, we are concerned that the proposal would make scaled disclosure accommodations available to a significant proportion of registrants. In our view, the scope of that expansion warrants careful consideration. Although scaled disclosure may be appropriate for smaller issuers, many issuers that would become eligible for these accommodations under the proposal have substantial public float, established operating histories, and significant market presence. Extending these accommodations to such a broad segment of the public company population would permit a substantially larger number of issuers to provide reduced disclosures under various Regulation S-X and Regulation S-K requirements, including the ability to follow Article 8 of Regulation S-X instead of all aspects of Articles 4 and 5 of Regulation S-X. While these accommodations may reduce compliance costs, they also reduce the amount of information available to investors and may diminish comparability among issuers with substantial public float, established operating histories, and significant market presence.

Notwithstanding these concerns, we generally support the objective of aligning SRC and NAF eligibility criteria, as a more closely aligned framework could reduce complexity, improve consistency in the application of the Commission's reporting requirements, and make eligibility determinations more straightforward. However, investors often compare companies of similar size and market significance, and the proposal could result in issuers that appear similar from an investor's perspective being subject to materially different disclosure requirements. Accordingly, we believe the Commission should carefully evaluate whether the benefits of extending scaled disclosure accommodations to such a large portion of the reporting population justify the resulting reduction in comparability and available information, particularly for issuers that do not exhibit the characteristics traditionally associated with smaller reporting companies.

We also question the proposal to extend most EGC disclosure accommodations to NAFs. The EGC framework was established as a targeted, transitional on-ramp for newly public companies, and we believe that rationale remains sound. Extending accommodations designed for newly public issuers to a population that would encompass approximately 81% of registrants represents a significant expansion of the framework's original purpose. To the extent the Commission believes certain EGC accommodations should be more broadly available, we believe those requirements would be more appropriately evaluated through the Commission's ongoing review of Regulation S-K and executive compensation disclosures, which provides a more comprehensive framework for assessing whether particular disclosure requirements continue to provide meaningful information to investors. Accordingly, we believe additional consideration is warranted before extending EGC accommodations to the substantially broader population contemplated by the proposal.

Broader Market Effects on ICFR Expertise and Audit Firm Choice

The current ICFR attestation framework has contributed to the development and maintenance of specialized expertise across audit firms, preparers, consultants, and other participants in the financial reporting ecosystem. Under the proposal, approximately 60% of registrants currently subject to auditor attestation requirements would no longer require an auditor's attestation on ICFR. As a result, the population of issuers requiring ICFR attestation services would be substantially reduced. We believe the Commission should consider whether this effect could have implications beyond the companies directly affected by the proposal. High-quality ICFR engagements require specialized competencies relating to information technology controls, automated business processes, cybersecurity-related governance, third-party service provider controls, data integrity, and other increasingly complex aspects of modern financial reporting. Developing and maintaining these capabilities requires significant investments in personnel, training, methodologies, technology, and quality control infrastructure.

The ability to sustain those investments is influenced in part by the breadth of the market requiring such services. While the issuers that would remain subject to ICFR attestation represent a significant proportion of aggregate public float, the development of expertise is driven not solely by market capitalization but also by the number and diversity of engagements through which professionals gain experience across industries, operating models, transaction types, information systems, and control environments. A substantial reduction in the number of ICFR engagements could reduce opportunities to develop and maintain specialized skills, particularly in areas involving technology-enabled controls and emerging risks. It could also affect the pipeline of professionals developing expertise in these areas, with potential implications for the long-term availability of specialized ICFR resources.

As a result, some firms, particularly smaller and mid-sized firms, may determine that maintaining extensive ICFR capabilities is no longer economically viable. Over time, this could reduce the number of firms possessing the expertise and capacity necessary to perform ICFR attestation engagements, potentially affecting competition, market capacity, and auditor choice for issuers that continue to require such services. We therefore encourage the Commission to consider whether a framework under which approximately 19% of registrants remain subject to ICFR attestation requirements could have broader, longer-term effects on the availability of specialized ICFR expertise and the market infrastructure that supports high-quality financial reporting and governance.

Conclusion

In summary, we support the Commission's objective of modernizing and simplifying the filer status framework and believe that periodic reassessment of existing thresholds may be appropriate. We also support the proposed simplification of the transition provisions. However, we believe additional analysis is needed before substantially narrowing the population of issuers subject to accelerated reporting requirements, ICFR auditor attestation, and certain disclosure obligations. We respectfully encourage the Commission to further evaluate whether the proposed framework appropriately balances the objectives of simplification, capital formation, investor protection, and high-quality financial reporting in today's capital markets.

We appreciate this opportunity to express our views to the Commission. We would be pleased to answer any questions the Commission or its staff might have about our comments. Please contact Tim Kviz, National Managing Principal – SEC Services, at (703) 245-8685 or via e-mail at tkviz@bdo.com, or Michael Stevenson, National Managing Principal – Professional Practice and Auditing, at (214) 665-0707 or via e-mail at mstevenson@bdo.com.

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