

AN ALERT FROM THE BDO NATIONAL ASSURANCE PRACTICE

BDO FLASH REPORT

SEC MATTERS



SUBJECT

SEC PROPOSES AMENDMENTS TO SMALLER REPORTING COMPANY DEFINITION

DETAILS

On June 27, 2016, the Commission proposed rules which would increase the financial thresholds in the smaller reporting company¹ (SRC) definition. The proposal would expand the number of companies eligible for the scaled disclosures permitted by Regulation S-K and Regulation S-X. The financial thresholds in the definition of accelerated and large accelerated filer and the related filing requirements would remain unchanged.

Under the proposal, a company with less than \$250 million of public float (or less than \$100 million in annual revenues, if the company has no public float) would qualify as a SRC. The proposed financial threshold for re-entering SRC status is less than \$200 million of public float (or less than \$80 million in annual revenues, if the company has no public float). The table on the following page summarizes the proposed amendments to the SRC definition, as compared to the current definition.

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¹ The smaller reporting company definition excludes investment companies, asset-backed issuers and majority-owned subsidiaries of a parent that is not a smaller reporting company.

REGISTRANT CATEGORY	CURRENT DEFINITION	PROPOSED DEFINITION
Reporting Registrant	Less than \$75 million of public float at end of second fiscal quarter	Less than \$250 million of public float at end of second fiscal quarter
Registrant Filing Initial Registration Statement	Less than \$75 million of public float within 30 days of filing	Less than \$250 million of public float within 30 days of filing
Registrant with No Public Float	Less than \$50 million of revenues in most recent fiscal year	Less than \$100 million of revenues in most recent fiscal year
Re-entering SRC Status Based on Public Float	Less than \$50 million of public float at end of second fiscal quarter	Less than \$200 million of public float at end of second fiscal quarter
Re-entering SRC Status Based on Revenues (No Public Float)	Less than \$40 million of revenues in most recent fiscal year	Less than \$80 million of revenues in most recent fiscal year

The current definitions of accelerated and large accelerated filer contain a provision that excludes registrants that qualify as SRCs. The proposal would eliminate that provision, while maintaining the financial thresholds in the definitions of accelerated filer (i.e. \$75 million of public float) and large accelerated filer (i.e. \$700 million of public float). Therefore, companies with public floats of \$75 million or more, but less than \$250 million,² that qualify as SRCs under the amended definition, would still be subject to the accelerated filing requirements, including the accelerated timing of filing periodic reports and the requirement to provide the auditor's attestation of management's assessment of internal control over reporting required by Section 404(b) of the Sarbanes-Oxley Act of 2002. However, those companies would be allowed to take advantage of the scaled disclosure system available to SRCs.

Rule 3-05 of Regulation S-X requires financial statements of businesses acquired or to be acquired. Rule 3-05(b)(2)(iv) allows registrants to omit such financial statements for the earliest of three fiscal years required if the net revenues of the business to be acquired are less than \$50 million. The Commission has not proposed to amend this threshold.

The proposal can be found [here](#) on the SEC's website. Comments should be provided within 60 days after the release is published in the Federal Register.

² Or less than \$200 million of public float, if re-entering the SRC status.

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