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SEC Expands the Scope of Smaller Public Companies That Qualify for Scaled Disclosures

PUBLIC COMPANIES

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On June 28, 2018, the Securities and Exchange Commission (SEC) adopted an amendment that expands the scope of the definition of Smaller Reporting Companies (SRC) that qualify for scaled disclosures. The amendments are intended to encourage capital formation and reduce the high cost of compliance that can be burdensome smaller companies. Although amendments are being made, the SEC still has one goal in mind: to protect the investor.

Companies that have a public float of less than \$250 million are now considered to fall under the definition of an SRC. A company with no public float, or public float less than \$700 million, and annual revenues less than \$100 million in the most recently completed fiscal year will also now qualify under the definition of an SRC. Prior to the revision of the SRC definition, a company that had a public float of less than \$75 million or a company with no public float and revenues less than \$50 million qualified as an SRC.

If a company has determined that it does not meet the revised qualifications of an SRC, the company will remain unqualified until it meets a lower qualification threshold that is set at 80% of the figures outlined above. For example, if a company previously had \$250 million or more of public float, it would have to reach a public float of less than \$200 million in order to qualify as an SRC.

The amendment will be effective 60 days after publication in the Federal Register.

It is important to note that these amendments do not modify the definitions and thresholds of an “accelerated filer” and “large accelerated filer.” In other words, if a Company has more than a \$75 million of public float, the company may still qualify as an SRC, but will remain subject to requirements that apply to accelerated filers, such as report filing requirements. Although the definitions of an accelerated filer and large accelerated filer currently remain unchanged, the SEC Chairman, Jay Clayton, has instructed his staff to propose recommendations that could result in additional changes to these definitions. With these potential changes on the horizon, one would think that it would further reduce the number of companies that qualify as accelerated filers. This is consistent with the SEC’s recent actions and goal to encourage capital formation and limit the cost burden on smaller companies, all while maintaining protection of the investor.

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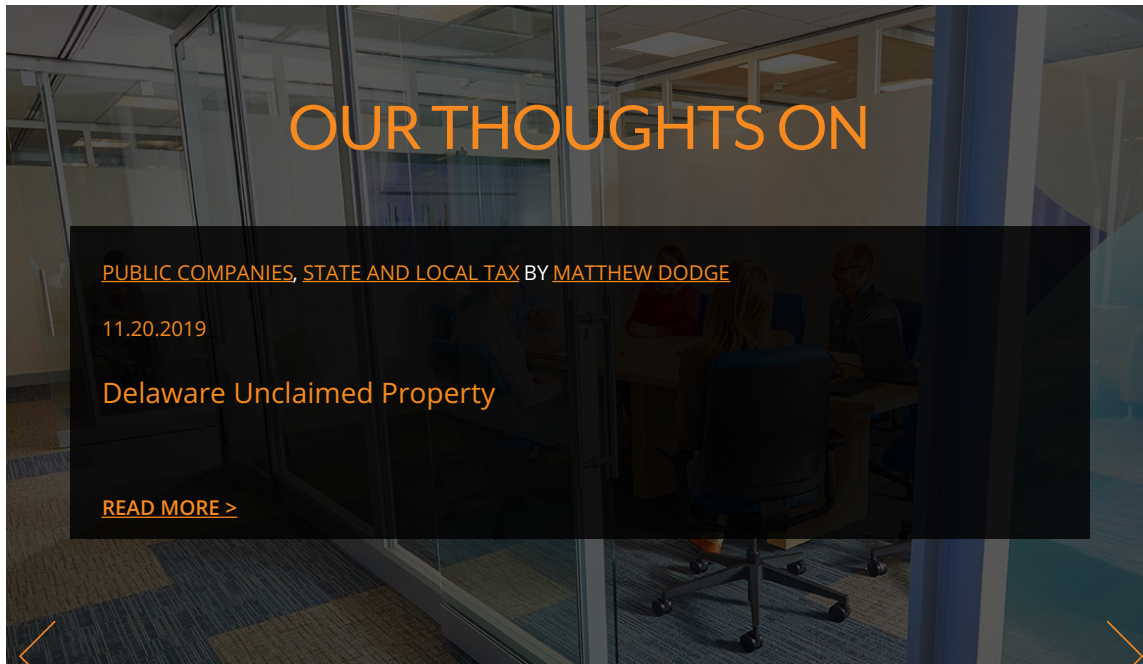


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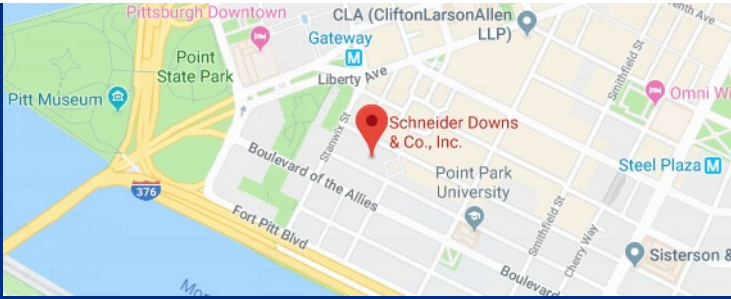


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