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Ms. Nancy M. Morris
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090

Proposed Rule: Smaller Reporting Company Regulatory Relief and Simplification
(Release No. 33-8819)
Commission File No. S7-15-07

Dear Ms. Morris:

Ernst & Young LLP is pleased to respond to the request for comment by the Securities and Exchange Commission (the Commission or SEC) on its proposal *Smaller Reporting Company Regulatory Relief and Simplification* (the Proposed Rule). Overall, we support the Proposed Rule, which in many respects is consistent with the recommendations we made in our 2006 comment letter to the SEC (File No. 265-23). Included below are our comments and recommendations on several elements of the Proposed Rule.

Definition of a Smaller Reporting Company

We concur with the SEC's proposal to expand the number of public companies eligible for the reduced disclosures currently set forth in Regulation S-B. However, because the computation of market capitalization is simpler and more widely understood than the calculation of public float, we would prefer that the SEC use market capitalization, rather than public float, to define an eligible smaller reporting company.

Whether the SEC uses public float or market capitalization to define a smaller reporting company, we concur with raising the limit to $75 million from the current $25 million threshold used to define a "small business issuer." In our view it is appropriate to set the threshold at $75 million, consistent with the SEC's current definition of an accelerated filer, as well as its eligibility standard to use Form S-3 for primary offerings without limitation. Unlike the Advisory Committee, which recommended extending Regulation S-B's financial statement relief to public companies within the lowest 6% of aggregate U.S. market capitalization (approximately 80% of all public companies, including those with market capitalization of nearly $800 million), we do not believe that the SEC should set the initial quantitative threshold any higher.

In order to balance protecting investors and promoting capital formation by small businesses, we believe that reduced disclosures should be limited to those public companies with relatively limited and less complex operations. By using equity valuation as the single quantitative criterion to define a smaller reporting company, an established company that experiences financial distress could become eligible for relief as a smaller reporting company. Accordingly, as with the current definition of a small business issuer, we suggest that the SEC revise the proposed definition of a smaller reporting company to retain a quantitative measure based on annual revenue (or perhaps total assets in the case of a financial institution).

Indexing to Adjust for Inflation

We concur with the SEC's proposal to periodically inflation-index the quantitative thresholds used to define a smaller reporting company. We have been a consistent proponent of using indexed, rather than static, quantitative thresholds in various securities regulations.

We also concur with the proposed revision to the SEC's current definition of an accelerated filer in order to exclude any registrant that qualifies as a smaller reporting company. We see no reason why companies meeting the definition of a smaller reporting company should be subject to accelerated filing deadlines. However, we urge the SEC to adopt inflation-indexing for all the quantitative thresholds used to define an accelerated filer, a large accelerated filer and a well-known seasoned issuer.

Elimination of Regulation S-B and SB Forms

In our view, eliminating and integrating Regulation S-B, and eliminating current SB forms, will create a single set of registration and reporting rules and forms, reducing regulatory complexity for smaller public companies.

We concur with the SEC's proposal to eliminate Regulation S-B and integrate its disclosure relief into Regulation S-K. However, the SEC has proposed to integrate Item 310 of Regulation S-B ("Financial Statements") into Regulation S-K. Instead, we recommend that Item 310 be integrated into Regulation S-X, which otherwise includes all of the SEC's form and content requirements for financial statements.

We concur with the proposed elimination of separate SB registration and reporting forms. Also, we agree that the cover pages of the remaining registration and reporting forms should be modified to require a clear indication whether the registrant qualifies as a smaller reporting company.

The Proposed Rule 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 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.

We would be concerned if a smaller reporting company elected to provide more than the minimum disclosures only in periods when the additional disclosures tended to be favorable. Thus, a smaller reporting company should be expected to be able to justify its reasons for reducing the general level of its disclosures (e.g., a divestiture or restructuring that reduces the size or scope of its operations, a significant reduction in its revenues or market capitalization). However, we would not favor any requirement for a smaller reporting company to designate whether it intends its disclosures to exceed the minimum requirements or whether the extent of its disclosures is different than in a prior period.

Item 310 Financial Statement Relief

The financial statement relief of Item 310 only requires one balance sheet in annual and quarterly reports. As we commented to the SEC in 1992 (File No. S7-4-92), we continue to believe that comparative balance sheets provide investors with a more meaningful financial statement presentation, with minimal costs. For example, comparative balance sheets already would be available within a smaller reporting company's two years of audited financial statements. Thus, the presentation of comparative balance sheets within the SEC filings of a smaller reporting company would entail very little additional effort on the part of its registered public accounting firm. Because the benefits clearly exceed the costs, we recommend that the SEC require smaller reporting companies to file comparative balance sheets in annual and quarterly reports in the same manner as other registrants.

Currently, a Canadian issuer that qualifies as a small business issuer may file two years of audited Canadian GAAP financial statements reconciled to U.S. GAAP. However, the Proposed Rule would require any foreign smaller reporting company, including a Canadian issuer, to present either (1) two years of audited U.S. GAAP financial statements, or (2) three years of audited local GAAP financial statements with a related reconciliation. We see no compelling reason to require U.S. GAAP financial statements in order to benefit from Item 310's financial statement relief. Accordingly, we recommend that Item 310 allow a foreign smaller reporting company to file only two years of audited financial statements, subject to any applicable reconciliation requirements.

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We would be pleased to discuss our comments with the Commission or its staff at your convenience.

Very truly yours,

Ernst & Young LLP