MARCUM
ACCOUNTANTS ▲ ADVISORS

March 21, 2019

US Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Via email: rule-comments@sec.gov

Re: Request for Comment on Earnings Releases and Quarterly Reports
File Number S7-26-18

We appreciate the opportunity to respond to the Commission's request for comment on Earnings Releases and Quarterly Reports. Marcum LLP is an annually inspected registered public accounting firm. We are the seventh largest public company auditor, with nearly 200 Issuer audit clients, a significant majority of which are Smaller Reporting Companies and/or Emerging Growth Companies.

We support the Commissions efforts to "enhance, or at a minimum maintain, the investor protection attributes of periodic disclosures while reducing administrative and other burdens on reporting companies associated with quarterly reporting." We believe the current requirements for interim reporting on Form 10-Q, including, but not limited to, (a) interim financial statements and disclosures prepared under a consistent framework (b) review procedures performed by the registered public accountant, and (c) management certifications, instill discipline, rigor, and accountability in the financial reporting process. These requirements strengthen the quality and reliability of interim financial information, which helps to protect investors.

Consistent Reporting Framework

We believe investors benefit from the consistent and comparable interim financial statements prepared under Generally Accepted Accounting Principles in the United States and Article 10 of Regulation S-X. In contrast, earnings releases are elective and there are no prescriptive requirements for the type or level of financial information to be disclosed, as long as the information does not contain material misstatements or omissions. As a result, the scope and timing of such disclosures in earnings releases vary significantly in practice.

Review Procedures Performed by the Registered Public Accountant

As the Commission notes in the Request for Comment, while the financial statements in Form 10-Q are unaudited, Regulation S-X specifies that the interim financial statements included in Form 10-Q must be reviewed by an auditor in accordance with Public Company Accounting Oversight Board (PCAOB) standards. We believe there is significant value to auditor involvement with related disclosures about internal control over financial reporting (ICFR) during the auditor's quarterly review. An auditor's quarterly review procedures increase the likelihood that investors will receive timely information about material changes in ICFR.

We believe that the process contributes significantly to investor protection and confidence. Also, as discussed further below, during the auditor's quarterly review the auditor frequently performs audit procedures that may positively impact the effectiveness and efficiency of the annual audit.

Management Certifications

We believe investors also benefit from quarterly certification requirements of SOX and SEC rules, which have increased the accountability of principal executive and financial officers and enhanced the quality of interim financial reporting included in Form 10-Q. These requirements do not apply to earnings releases.

Change in Frequency Considerations

Protecting the Investors

We support the current quarterly reporting process, as it increases transparency for investors. We believe reducing the frequency of reporting requirements for different categories of domestic reporting companies would be a detriment to certain investors:

- **Impact on financial reporting quality:** We believe that quarterly reporting has a positive impact on the quality of financial reporting due to the rigor, auditor involvement, management certifications, and associated processes and controls that are integral to the quarterly financial reporting process. Additionally, we often perform audit procedures on significant risks or material transactions during the quarter, rather than waiting until year-end to complete all audit procedures. This approach can result in the earlier identification and resolution of potential financial reporting issues. While some registrants will demand auditor involvement throughout the year regardless of interim requirements, it is likely that many registrants, smaller reporting companies in particular, will avoid such auditor involvement. Less frequent financial reporting and auditor involvement would likely reduce financial reporting quality for those entities.

- **SRCs and EGCs:** In your request for comment, you asked whether a semi-annual reporting model would be appropriate for certain categories of reporting companies, such as Smaller Reporting Companies (SRCs) or Emerging Growth Companies (EGCs). SRCs tend to have less robust internal controls over financial reporting, as they have less resources. The same often holds true for EGCs, as they are newly reporting entities that are still establishing effective, consistent financial reporting routines. For these reasons, SRCs and EGCs require more discipline, rigor and accountability, not less. Reducing required auditor involvement from four-times to two-times per year will likely reduce the emphasis many SRCs and EGCs will place on the financial reporting process. Quarterly reporting requires finance departments to maintain a constant vigilance. Six month gaps between financial reporting will likely cause them to take their focus off of the external financial reporting process, negatively impacting quality, and increasing the likelihood of financial reporting errors or fraud.

- **ICFR considerations:** Many companies perform certain internal control procedures only in conjunction with the preparation, review and filing of their Form 10-Q (e.g., financial closing and reporting controls). Frequency can be a contributing factor when evaluating and monitoring the effectiveness of a control, and repetition enhances the quality and effectiveness of the process. There is a risk that a change in frequency of interim reporting could result in certain controls being performed less frequently for certain companies, particularly SRCs and EGCs. In addition, in instances where relevant controls fail and there are no compensating controls in place, there may be fewer opportunities to timely identify or remediate control deficiencies if these controls are performed less frequently.

Underwritten Offering Considerations

A change in frequency of interim reporting could impact the nature of work and the level of assurance that we could provide at the request of an underwriter.

- **Comfort to underwriters on interim financial information**: Underwriters understand that auditors review quarterly financial statements included or incorporated in an offering document. With reference to providing comfort on interim financial information, paragraph 37 of PCAOB Auditing Standard 6101, *Letters for Underwriters and Certain Other Requesting Parties* (AS 6101), states that "[w]hen the accountants have not conducted a review in accordance with AS 4105, the accountants may not comment in the form of negative assurance and are, therefore, limited to reporting the procedures performed and findings obtained." If limited earnings release information or other financial information, which is not subject to an AS 4105 review is a part of the registration statement, the level of comfort auditors will be able to provide on this information to underwriters in a securities offering would be reduced.

- **Comfort to underwriters on changes through the comfort letter date**: Auditors are customarily asked to provide negative assurance related to changes in specified financial statement line items between the date of the most recent financial statements included in the offering documents and the date of the offering. AS 6101, paragraph 46 only allows for negative assurance as to subsequent changes in specified financial statement items as of a date less than 135 days from the end of the most recent period for which the auditor has performed an audit or a review; therefore, a change in frequency of interim reporting could impact the time period when auditors would be able to provide such negative assurance on subsequent changes. As a result, the level of comfort auditors are able to provide to underwriters in a securities offering would be reduced.

Additional Impacts

A change in frequency of reporting required by the SEC may not achieve the objective of reducing administrative and other burdens associated with quarterly reporting due to investor or other stakeholder demands, for example, the following needs for quarterly reporting will still exist:

- Bank covenants,
- Bonding and insurance companies,
- Other contractual obligations,
- Listing requirements of certain securities exchanges, or
- Regulatory requirements for certain industries.

We appreciate your consideration of our comments, and we would be pleased to answer any questions that you may have.

Very truly yours,

Marcum LLP

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