PRINCIPLES FOR RESPONSIBLE INVESTMENT

July 20, 2026

Vanessa A. Countryman, Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549–1090

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

Dear Secretary Countryman:

The Principles for Responsible Investment (the "PRI") respectfully submits these comments in response to the Securities and Exchange Commission's (the "SEC's" or the "Commission's") proposal (the "Proposal") to raise the large accelerated filer ("LAF") threshold to $2 billion, eliminate the accelerated filer and smaller reporting company categories, and extend to all non-accelerated filers ("NAF") the disclosure, attestation, and shareholder-voting accommodations currently reserved for the smallest issuers and emerging growth companies.[1] The PRI is an international network of investors with over 5,000 signatories—including asset managers, asset owners, and service providers—collectively overseeing approximately $130 trillion in assets under management or advisement. Over 800 of those signatories, with approximately $78.5 trillion of assets, are based in the US, and our global signatory base maintains significant exposure to the US markets.

The PRI supports the Commission's efforts to simplify and scale the reporting framework where doing so does not diminish the quality of information available to investors. As proposed, however, this rulemaking would go considerably further. Long-term investors need a robust investing environment to support capital formation, and a substantial body of research demonstrates that the disclosures, shareholder rights, and thresholds the Proposal would change are integral to investor protection, capital formation, and efficient markets.

Respectfully, we call on the Commission to:

- Protect the critical role that executive compensation disclosure and say-on-pay votes play in aligning the interests of corporate managers with those of long-term shareholders;
- Retain the role of the auditor attestation of internal control over financial reporting ("ICFR") in supporting capital formation;
- Consider alternatives, grounded in relevant data, to the proposed $2 billion threshold and five-year seasoning period;
- Correct the deficiencies in the economic analysis, including by monetizing costs to investors and updating market data that predates significant recent changes in the composition of the US markets; and
- Present a holistic analysis of the interactions among the Commission's concurrent disclosure and governance-related proposals before finalizing any of them.

[1] Securities and Exchange Commission (May 19, 2025), Enhancement of Emerging Growth Company Accommodations and Simplification of Filer Status for Reporting Companies, Securities Act Release No. 33-11419, File No. S7-2026-18 [hereinafter the "Proposal"].

I. Investor oversight of executive compensation plays a critical role in investor protection and capital formation.

Oversight of executive compensation is a lynchpin for addressing the agency problems and moral hazard inherent in the separation of ownership and control in corporate America. Shareholders bear a wide range of risks—within individual firms and across markets—that they cannot directly control. What long-term shareholders can do, and what the federal securities laws have equipped them to do, is monitor and engage on whether the incentives of the managers acting on their behalf are aligned with long-term value creation.

Corporate managers generally face short-term pressures to deliver results, and when their interests are not properly aligned, they may take significant short-term risks at the expense of long-term value creation. The literature on this point is robust. Research has found: a large majority of financial executives acknowledged a willingness to sacrifice long-term value to smooth reported earnings;[2] executives measurably cut investment in research, development, and capital expenditure in periods when their equity vests;[3] and acceleration of option vesting produces the same short-termist distortion.[4] Conversely, when shareholders succeed in lengthening executives' incentive horizons, firm value and operating performance improve.[5]

Aligned compensation packages are among the most tangible ways to build accountability of management to shareholders. Shareholders exercise oversight of this pay through two mutually reinforcing channels: disclosures like the Compensation Discussion and Analysis, pay-versus-performance disclosure, golden parachute and pay ratio disclosures, and the say-on-pay vote, which provides a consistent investor signal to corporate boards about the appropriateness of those packages. The Proposal would eliminate both channels simultaneously for approximately 29% of reporting companies and shift from 48% of filers being covered by these requirements to approximately 19%.

We note that Congress, in granting the Commission exemptive authority over the say-on-pay requirements, directed it to consider whether those requirements "disproportionately burden small issuers."[6] A rule that removes the vote at companies with up to $2 billion in public float and at newly public companies of any size would be difficult to reconcile with that statutory direction.

II. Auditor attestation supports trust in corporate disclosures, which in turn directly supports capital formation, especially for the middle market companies the Proposal would newly exempt.

The ICFR auditor attestation under Section 404(b) of the Sarbanes-Oxley Act matters most for precisely the middle market companies from which the Proposal would withdraw it. Research regarding the existing non-accelerated filer exemption finds the strongest benefits among smaller companies that correct control deficiencies with auditor sign-off, and estimates that the aggregate costs of undetected

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[2] John R. Graham, Campbell R. Harvey, and Shivaram Rajgopal (2005), The Economic Implications of Corporate Financial Reporting, *Journal of Accounting at Economics* 40: 3-73.
[3] Alex Edmans, Vivian W. Fang, and Katharina A. Lewellen (2017), Equity Vesting and Investment, *Review of Financial Studies* 30(7): 2229–71.
[4] Tomislav Ladika and Zacharias Sautner (2020), Managerial Short-Termism and Investment: Evidence from Accelerated Option Vesting, *Review of Finance* 24(2): 305–44.
[5] Caroline Flammer and Pratima Bansal (2017), Does a Long-Term Orientation Create Value? Evidence from a Regression Discontinuity, *Strategic Management Journal* 38(9): 1827–47.
[6] Cornell Law School, Legal Information Institute, Securities Exchange Act of 1934 § 14A(e), 15 U.S.C. § 78n-1(e).

misreporting under the exemption plausibly exceed the audit-fee savings it produces.[7] Other research finds that although the ICFR attestation mandate may be costly, an auditor-confirmed improvement in internal controls has a significant positive impact on the cost of equity capital.[8] The Commission's own 2011 staff study similarly concluded that the auditor's role improves the reliability of ICFR disclosure and financial reporting.[9]

Long-term investors need a robust and diverse universe of potential investments. A high-quality information environment around middle market firms plays a critical role in sustaining that universe—for investor protection, for efficient allocation, and for capital formation. Withdrawing the attestation from every company below $2 billion in public float, and from newly public companies of unlimited size, undermines that quality in the market segment where research suggests it does the most to support capital formation.

III. The $2 billion threshold and the five-year seasoning period are not supported by the record.

Simplification and streamlining of the filer status categories is an appropriate and useful goal for the Commission; however, the thresholds proposed for the new categories are a significant area of concern.

First, providing a five-year seasoning period, i.e. five years before a newly public company must comply with any of the critical and value additive requirements discussed above, *regardless* of size, revenue or maturity would create perverse outcomes and is not supported by the analysis. Recent and anticipated initial public offerings will bring to market companies that will instantly rank among the largest market capitalizations in the world. Companies of this size are sophisticated and well-resourced. Yet because of the timing of their accessing public markets, they would be entitled to delay their disclosures to the markets, and deprive investors of critical information on which to base informed investment decisions. Congress has already constructed a calibrated on-ramp for newly public companies—the emerging growth company framework—with revenue conditions that terminate the accommodations when a company outgrows them.[10] Additionally, this change would allow some of the largest companies in history to avoid long-standing requirements that far smaller LAFs must satisfy.

Second, the $2 billion threshold for becoming a LAF appears arbitrary, would create unexamined regulatory incentives for certain capital structures and risks misclassifying very large enterprises. Specifically, we highlight the following issues:

- Public float is a poor proxy for the size or sophistication of a company in an economy where companies increasingly enter the public markets with significant retained private ownership. Where insiders and pre-IPO holders retain large stakes, total market capitalization can diverge substantially from public float. A float-based threshold risks misclassifying very large enterprises.
- Relying entirely on public float to determine LAF status creates regulatory incentives for specific capital structures, which may otherwise be suboptimal for firms and their shareholders. Any final rule must consider the impacts of such incentives.

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[7] Weili Ge, Allison Koester, and Sarah McVay (2017), Benefits and Costs of Sarbanes-Oxley Section 404(b) Exemption: Evidence from Small Firms' Internal Control Disclosures, *Journal of Accounting and Economics* 63(2): 358–84.
[8] Hollis Ashbaugh-Skaife, Daniel W. Collins, William R. Kinney Jr., and Ryan LaFond (2009), The Effect of SOX Internal Control Deficiencies on Firm Risk and Cost of Equity, *Journal of Accounting Research* 47(1): 1–43.
[9] US Securities and Exchange Commission, Office of the Chief Accountant (April 2011), *Study and Recommendations on Section 404(b) of the Sarbanes-Oxley Act of 2002 for Issuers with Public Float Between $75 and $250 Million*.
[10] Cornell Law School, Legal Information Institute, 15 U.S. Code § 77b.

- Gauging the $2 billion threshold by reference to the share of aggregate public float and percent of filers covered when the LAF category was adopted in 2005, rather than by reference to evidence about where the costs of attestation and disclosure exceed their benefits does not meet the Commission's obligation for a balanced analysis.[11] As the Proposal establishes, adjusting the existing $700 million threshold for inflation would support a threshold of approximately $1.1–1.2 billion.
- Calibrating the threshold to aggregate float coverage compounds the effects of concentration that characterizes today's markets. When a small number of the largest issuers account for a historically large share of aggregate float, an aggregate float target mechanically permits progressively larger companies to fall outside the full disclosure regime while headline coverage statistics remain reassuring. Alternative measures may be more appropriate and should be considered before any threshold is finalized.

IV. The economic analysis does not credibly estimate the costs associated with the eliminated disclosures and accountability mechanisms, nor does it make an effort to monetize the value of the lost benefits for investors.

In a recent speech at the 12th Annual Conference on Financial Market Regulation,[12] Chairman Atkins emphasized the vital role of cost-benefit analysis in the Commission's rulemaking. He stated:

> *Considering the ongoing changes in financial landscapes, the need for thorough economic analysis of the Commission's actions becomes increasingly important. High-quality economic analysis is an essential part of any SEC rulemaking. It is critical that a rule's potential benefits and costs be considered in ensuring that it is in the public's interest. It also helps that it happens to be the law.*

We agree and we are concerned that the Proposal does not meet this standard.

(i) The estimated costs and benefits are exclusively those that impact issuers. The Proposal makes no attempt to monetize the costs to investors or the effects on firm valuations, although both are real, foreseeable, and estimable with available data. Mandatory disclosure is an efficient solution to a market failure because information produced once by the issuer is used many times across the market.[13] Eliminating the mandate does not extinguish investor demand for the information, it merely shifts production to a radically less efficient structure. The "Current Guidance on Economic Analysis in SEC Rulemakings" (the "Current Guidance") recommends that costs and benefits be evaluated "even-handedly,"[14] which would require a fair accounting of costs imposed on investors alongside issuers. We also note with concern that some of the research cited in the Proposal, when taken in its entirety, does not support the conclusion for which it was cited.[15]

(ii) The cost of replacing the eliminated information can be estimated. A lower bound is observable in the market prices of commercial data packages related to executive compensation. While these

[11] Securities and Exchange Commission (May 19, 2025), Enhancement of Emerging Growth Company Accommodations and Simplification of Filer Status for Reporting Companies, Securities Act Release No. 33-11419, File No. S7-2026-18: 40-42.
[12] US Securities and Exchange Commission Chairman Paul Atkins (May 16, 2025), Remarks at the 12th Annual Conference on Financial Market Regulation.
[13] John C. Coffee, Jr. (1984), Market Failure and the Economic Case for a Mandatory Disclosure System, *Virginia Law Review* 70: 717–53.
[14] Securities and Exchange Commission, Division of Risk, Strategy and Financial Innovation and Office of General Counsel (March 16, 2012), Current Guidance on Economic Analysis in SEC Rulemakings.
[15] Weili Ge, Allison Koester, Sarah McVay (2026), Re: Comment on SEC Proposal, Enhancement of Emerging Growth Company Accommodations and Simplification of Filer Status for Reporting Companies.

services rely on the disclosures being eliminated and would disappear or become far more expensive and limited if the underlying disclosures were removed, their current pricing at least proxies what investors demonstrably believe the information to be worth. Without standardized mandatory disclosure, investors and service providers would be left to gather data without standard and consistent disclosure, relying on direct inquiries, survey data, modelled data, or books-and-records requests.

This outcome would be highly inefficient and expensive. Regardless of how much you discount each instance of producing disclosure, any effort to estimate the costs under the Proposal would have to be multiplied by every separate investor effort. A single producer with complete access to its own records would be replaced by many duplicative gatherers without access. The structural inefficiency all but guarantees the costs to investors of finding this information would exceed the costs to companies of producing it.

(iii) The economic literature supports estimating the firm-value effects of the oversight mechanisms being eliminated. Research finds significant firm performance effects associated with say-on-pay votes: regression-discontinuity evidence from close votes on say-on-pay shareholder proposals—a proxy for the effect of the statutorily implemented vote—implies an increase in shareholder value of approximately 4.6% attributable to the monitoring effect of the vote.[16] Seminal research connects entrenching governance arrangements such as golden parachutes, which both reflect and exacerbate the agency costs discussed in Section I above, with significant firm underperformance: an entrenchment index in which golden parachutes are one of six related provisions is highly correlated with firm performance, and over 1990–2003 a portfolio long in zero-entrenchment firms and short in the most entrenched firms would have earned average annual abnormal returns of approximately 7%.[17] The value of the ICFR auditor attestation is likewise estimable through the cost-of-equity impact documented in the research discussed in Section II above.[18] The Current Guidance on economic analysis requires, at a minimum, that ”[w]here the Commission is giving greater weight to some empirical evidence/studies than to others, it should clearly state the reason(s) for doing so.”[19]

(iv) The analysis must consider the context in which the Proposal is being advanced, including updated market data and the full set of interactions with the Commission's other pending proposals. The economic analysis relies on market data as of 2024 end-of-year filings. US public markets have seen significant changes since then that would directly affect the analysis of this rule. Any final rule must be based on an analysis that reflects the market in light of all these recent changes.

Additionally, a meaningful cost-benefit analysis cannot treat this Proposal in isolation. The Commission currently has several proposals under consideration, which, taken together, could result in a company that is today a LAF, be reclassified as a NAF, report semiannually, on extended deadlines, without ICFR attestation, without Compensation Discussion and Analysis or pay-versus-performance disclosure, and without any say-on-pay vote.[20] The information loss to investors and the

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[16] Vicente Cuñat, Mireia Giné, and Maria Guadalupe (2016), Say Pays! Shareholder Voice and Firm Performance, *Review of Finance* 20(5): 1799–1834.
[17] Lucian Bebchuk, Alma Cohen, and Allen Ferrell (2009), What Matters in Corporate Governance?, *Review of Financial Studies* 22(2): 783–827; Martijn Cremers & Allen Ferrell (2013), Thirty Years of Shareholder Rights and Firm Valuation, *Journal of Finance*; Olubunmi Faleye (2007), Classified Boards, Firm Value, and Managerial Entrenchment, 83 J. F. Econ.: 65-501.
[18] Ashbaugh-Skaife et al. (see note 8); Weili Ge, Allison Koester, and Sarah McVay (see note 7).
[19] Securities and Exchange Commission (see note 14).
[20] Securities and Exchange Commission (May 5, 2026), Semiannual Reporting, Securities Act Release No. 33-11414, File No. S7-2026-15; Securities and Exchange Commission (May 19, 2026), Registered Offering Reform, Securities Act Release No. 33-11418.

market from that combination is multiplicative, not additive, and the Commission should analyze it as such before adopting any component.

V. Technical matters

The Proposal eliminates certain Regulation S-X footnote disclosure requirements for all filers, including LAFs, on the grounds that the FASB has incorporated those requirements into US GAAP through Accounting Standards Update 2023-06.[21] ASU 2023-06, however, contains contingent-effectiveness and sunset provisions. Each requirement only becomes effective when the Commission removes the corresponding requirement from Regulation S-X. Any requirement that has not become effective by June 30, 2027 will be removed from the Codification. Any eliminated item lacking a corresponding adopted amendment, or matched only by a narrower one, represents a permanent loss of information rather than the removal of a duplicate. We urge the Commission to publish that item-level mapping in any adopting release, and we note that these all-filer eliminations receive no treatment in the economic analysis.

VI. Conclusion

For the reasons above, the PRI urges the Commission to preserve the executive compensation disclosures, the say-on-pay vote, and the ICFR auditor attestation for the companies from which the Proposal would withdraw them, and to reconsider the proposed thresholds on the basis of relevant data. We again urge the Commission to engage directly with the market actors who rely on these disclosures to understand what information investors use, how they use it, and what it would cost them to replace it.

We appreciate the opportunity to share these perspectives. Please do not hesitate to reach out to Sam VanderMeulen at sam.vandermeulen@unpri.org if you have any questions or if it would be helpful to meet with Commission staff to discuss the matters raised herein.

Respectfully submitted,

Cambria Allen-Ratzlaff,

Chief Executive Officer

Principles for Responsible Investment

[21] Financial Accounting Standards Board (October 2023), Accounting Standards Update No. 2023-06, *Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative*.