The JOBS Act, Voluntary Disclosure, and Audit Fees

This study examined the impact of changing status from an Emerging Growth Company (EGC) into a regular filer following the trigger of a disqualifying provision in the JOBS Act of 2012. It built on literature related to the JOBS Act of 2012, audit fees, voluntary disclosure, and internal control. I found that these entities are more likely to have higher audit fees when they no longer qualify as ECGs. The change in audit fees was found to be associated with indicators of weaker control structures. Entities that adopted new or revised accounting standards earlier than required had indicators of a stronger internal control structure. Provided appropriate governance mechanisms are in place at the firm level, scaling of disclosure and direct monitoring through audits could increase stakeholder value through reduction in some costs. Despite the initial reduction in direct costs to the entities in the form of audit fees on the Initial Public Offering (IPO), longer-term increased costs associated with fees and material weaknesses on the marketplace could be significant enough to negate the reduction. Additionally, given the reduction in mandatory disclosure for these entities, overall comparability within the market could be decreased, thus reducing the ability to benchmark and draft consistent policy. At the market level, this trend towards allowing reduced regulation could continue to stimulate IPOs, at the expense of a reduction in the quality of investment information in the secondary market.