

From: Marc Hendrikson [mailto:mhendrikson@centennialbanking.com]
Sent: Wednesday, April 01, 2015 7:33 PM
To: PCCReview
Subject: PCC Review Comments

In response to your request for commentary on PCC's process, I would offer the following commentary. I hope it is not too blunt or simplistic, but it represents my 27-year tenure as a community banker and as a CPA and recent member of Council of AICPA. Please note that my comments reflect my thoughts and opinions only based on my experiences and are not those of my employer, the AICPA or the profession in general.

1. The effort has been acceptable, but not stellar. It took a year for PCC to issue the first ASU, only 1 of which affected most of my clients and only 4 have been issued to date, 2+ years later. Other efforts seem nebulous and "committee" driven vs. real results and helpful action driven efforts.
 - The only two useful ASUs in my opinion are Goodwill and VIEs. The other ASUs apply much more narrowly, not to most small to medium sized businesses.
 - Examples of issues that affect my business clients (who typically range in the \$1-30MM revenue size) include or will include issues like the new lease accounting rules, revenue recognition (i.e. contractors in particular), comprehensive accounting of non-material or non-cash gains/losses from various sources, etc. These GAAP requirements (existing or future) do not help most of my clients and skew the FYE results from interim statements that effectively report results just fine without these complex changes or un-useful rules that can't effectively be implemented mid-year anyway.
 - Other observations I would offer include the following:
 - The majority of past or present PCC board members are with much larger companies or enterprises than one would have expected. While they may have experience with smaller companies, the fact that you have someone from a national bank, national or very large CPA firms, large private, multi-national businesses who have been through capital placements, etc. does not make me feel good about the effort to address small, private company reporting needs vs. the ever complex and less than useful GAAP of today. I would point out that Mr. Atkinson was publicly challenged on this point personally at an AICPA council meeting when PCC first rolled out based on his lengthy career with one of the largest firms in the country. So from the start, there has been concerns about PCC's ability to really navigate private company issues.
 - You state in your document that PCC's next move is not to continue to work on GAAP alternatives, but to work on "other FASB projects" –this makes no sense to me. Are you saying you are done, nothing else needs to be done other than the 4 ASUs issued? If so, then PCC should just go away in my humble opinion, FASB can certainly function without it.
 - FASB has been dealing with private company reporting issues for 40+ years and nothing really impactful seems to come out of that effort. PCC has at least made more progress than any other effort, but now it's just going to stop? Again, this is disappointing and nonsensical.
 - Many CPAs I've spoken to in Denver & Colorado who work in this private space seem to be confused by both PCC and the AICPA effort on the FRF front and in some cases, they are merging the two concepts (that is, they don't really understand what either effort is trying to accomplish or they think the two efforts are actually the same).

- Worse than the profession being confused or poorly informed on this front is the fact that in my experience, the banking profession is largely clueless about these efforts. That is to say that the majority of bankers I ask to opine on this issue, do not even know who or what the PCC has done. Obviously much more work needs to be done on the outreach effort to really penetrate our ranks (PS I think the same is true of AICPA and have shared this with them as well).
2. Not even close to being complete. See above comments. The area of lease accounting and revenue recognition cause me significant concern with smaller companies. There is no way most smaller companies can reasonably comply with these changes in most cases in my opinion; I might add that many in the profession are struggling with this as well.
 3. I'm somewhat confused on this point. The question implies that PCC will serve as FASB's primary advisory body on private company issues, but this same document on p. 8 bullets 1 & 2 under "PCC Roles and Responsibilities" refer to transitioning to active FASB projects, and the look back effort should decrease and PCC will spend the majority of its time advising FASB on ITS active agenda projects. These two statements contradict each other. Is PCC continuing as an active Private company oriented body or not? If not, then what is its purpose ultimately if you think they are "done."
 4. See above, again please do not wind down or consider yourself done on the private company front, you have just scratched the service in my opinion. If PCC is not going to do any more or significantly participate in the private space, than what's the point.
 5. Fair at best, again 40+ years on this topic, 2+ in the most recent iteration and you are patting yourselves on the back while at the same asking for input.
 6. Yes, specifically on lease accounting, revenue recognition, and comprehensive income, all things that are or will be difficult for smaller companies to implement and are not useful to users like me. This is why I am supportive of FRF, which in my 30k foot view of this issue provides preparers and users a better format for companies to use "basic / small GAAP" principles to report their results. Going back to accounting 101: are financial results matched appropriately and is good & acceptable accrual accounting being used and are results not wildly skewed as a result of accounting practices? If something more complex comes up like the issues raised in the 4 ASUs, then deal with those individually one company at a time. That's all users like me really care about. Frankly, even when matters like goodwill, intangibles, etc. come up, they are typically only a FYE reporting issue. Most smaller companies I deal with completely ignore these matters until the CPA steps in for the annual review or audit and interim reporting is then very different than the FYE 3rd party result – again a huge and confusing issue for users like me and largely not useful because most of the noise around these issues is of a non-cash nature anyway. Covenants for example are set and designed to be measured more frequently than annually or if they are annual in nature are set based on interim statements that do not address these reporting matters (because they can't or don't understand how to).
 7. My commentary is much more holistic. If the body has a purpose and appropriate agenda in the private reporting space, then just continue the effort, why does this have to be redefined at this time? I will say that as for composition, you need to bring in players from the "smaller world" to include community bankers, venture or angel capital type investors, smaller CPA firm partners, smaller company CFO/controllers and the like for this effort to be more meaningful to someone like me. The list of members currently does not in my opinion represent the world I deal with on a daily basis.
 8. FASB as a whole is by design geared towards dealing with large, sophisticated accounting standard setting, and not well positioned to deal effectively with private company reporting

issues (I refer back to the 40+ year effort ...). So no, private company standard setting should not go back to the “default” position in my opinion.

9. While well written, much of this is nebulous and pretty vague. Just get back to work and deal with issues that are on the table or that need to be on the table instead of redefining your mission or purpose. Private Company Council should be private company focused, it’s pretty simple in my mind.
10. Get back to basics, really effort your outreach to people like me on the street every day in the “mainstream small business world” and help us get done what we need to: achieve effective but simplified reporting for good private companies who need access to lending and small capital markets.

Marc Hendrikson, CPA, CGMA, CCIFP

Senior Vice President - Downtown Denver

mhendrikson@centennialbanking.com

d 720.873.3754

c 720.281.4179

centennialbank

717 17th Street, Suite #100

Denver, Colorado 80202

www.centennialbanking.com

“This email and any files transmitted with it are confidential and intended solely for the use of the individual or entity to whom they are addressed. If you have received this email in error please notify the system manager. This message contains confidential information and is intended only for the individual named. If you are not the named addressee you should not disseminate, distribute or copy this e-mail. Please notify the sender immediately by e-mail if you have received this e-mail by mistake and delete this e-mail from your system. If you are not the intended recipient you are notified that disclosing, copying, distributing or taking any action in reliance on the contents of this information is strictly prohibited.”