PRIVATE COMPANY COUNCIL

by Steve Brown

You may not know it, but the Federal income tax began 100 years ago this year (1861), when Abraham Lincoln needed money for the Civil War. This first tax of 3% lasted until 1866 when it was repealed by Congress. Then, in 1894, Congress tried to bring back the tax, only to have the Supreme Court rule it was unconstitutional. After a constitutional amendment, it was finally made final. Things sure have changed from those early days when the tax code was only 38 pages (it is now about 74,000 pages long). As this shows, we certainly seem to adapt to rules and regulations, but we don't always like them. Along similar lines, consider that in May of last year, FASB announced the creation of the Private Company Council (PCC) as part of an effort to better understand the impact of accounting rule on public and nonpublic entities. FASB even went so far as to say private companies have been negatively impacted by costly and complex rules that have forced them to hire outside assistance (such as valuation consultants), incur added cost and deal with cumbersome models. This forces material changes to systems, controls and processes and creates challenging audit reviews (as it increases time spent on audits and boosts costs). It may shock you, but the PCC's aim is to reduce cost and complexity, while ensuring relevant information is still reported. By acting as an advisor to FASB, the PCC will propose changes to current technical accounting literature in an effort to ensure consistency and reduce complexity. The PCC is not intended to create a completely new set of rules, but rather FASB recognizes users of financial statements have different needs, depending on whether the company's stock trades publicly (for which providing an alternative to focus on certain areas becomes imperative) or not. For this reason, the PCC has considered various financial statement users, talked to company management, looked at investment strategies, capital structures and accounting resources. These are all areas where nonpublic firms focus differently vs. public peers. In its first meeting held late last year, the PCC identified four projects that will receive its initial focus. These are: consolidation of variable interest entities, accounting for "plain vanilla" interest rate swaps, accounting for uncertain tax positions and the fair value of intangible assets (other than goodwill) acquired in business combinations. Exposure drafts and the PCC's Final Conceptual Framework chapter will be released in 2Q of this year. The PCC is also expected to meet five more times during the rest of 2013. Beyond the creation of the PCC, FASB continues to make progress in rulemaking for nonpublic entities. Just this month for example, FASB issued guidance to clarify requirements to disclose the level of fair value hierarchy (Level 1, 2 or 3) does not apply to private companies and nonpublic not-for-profits for items where fair value is disclosed, but are not measured at fair value in the financial statements. This addressed concerns that some nonpublic entities might not qualify for the disclosure exemption and could include loans, bank debt and other obligations. As both the PCC and the FASB continue to work on projects targeting private companies, one can hope it will reduce the burden on community banks over time. As simplified or clarified information is shared, the accounting bodies will hopefully reach consistency and transparency in standard setting. Once that is paired up with a cost efficient framework, these goals will no longer be considered mutually exclusive.

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BANK NEWS

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F.N.B. Corp. ($11.8B, PA) will buy PVF Capital ($786mm, OH) for about $106mm in stock. F.N.B. is the parent company of First National Bank of Pennsylvania and PVF is the parent of parent of Park View Federal Savings Bank.

M&A

Citibank said it will purchase the Best Buy private label credit card portfolio from Capital One Financial for an undisclosed sum. The portfolio has about $7B in loans.

Tax Season

The IRS reports 80% of all tax returns are now filed electronically.

Bank Fined

Federal regulators have fined the former directors and executives of Security Bank (FL) for knowingly hiring a man who had been convicted of tax evasion. The man was employed by the holding company, but regulators said that even though he wasn't officially an employee of the bank, it was a violation of laws against hiring people with criminal histories without prior regulatory approval.

Residential Lending

The CFO of Wells Fargo said mortgage lending continues to slow as refinancing activity has declined.

S&P

Moodys downgraded the credit ratings of McGraw-Hill two levels to Baa2 from A3, as its S&P subsidiary faces a $5B lawsuit from the US Government.

Earnings Pressure

Rating agency Fitch expects pressure to continue on community banks in 2013, saying a "limited opportunity to improve fee-based income in the near term" means "mid-tier banks will continue to face greater earnings headwinds in 2013 than larger institutions with greater revenue diversification."

Acquisition Risk

Research by Deloitte and Harris Interactive studying customer attrition during an acquisition finds 17% of people switched at least one of their accounts to another bank after their bank was acquired. Additionally, 64% of those who switched did so in the first month following the acquisition, 21% moved within 2-3 months and 7% left between 4-6 months. The data shows how important it is to have strong customer communication early on.