BDO SPOTLIGHT:
Q&A WITH BDO'S NEW FINANCIAL INSTITUTIONS CO-LEADERS PAUL BRIDGE AND JOE LACLAIR

Paul Bridge and Joe LaClair are the national co-leaders of BDO's Financial Institutions and Specialty Finance (FI-SF) practice. With more than 25 and 33 years of public accounting experience respectively, Paul and Joe provide services to public and privately held financial institutions on a variety of accounting, financial reporting and internal control matters.

Can you tell us more about your background, and what drew you to BDO?

Joe: I started my public accounting career in 1984 and worked for several regional firms throughout New York State and Pennsylvania. After working for more than 29 years at a variety of public accounting firms, I and several other partners joined BDO in June 2013. My specific experience in the financial services sector originated from working with different types of community banks at my first firm, Coopers & Lybrand, and then later at TFG in upstate New York and BMC in Pennsylvania. I've now been in community banking for more than 33 years.

Paul: My path is similar to Joe's. Prior to joining BDO in 2006, I worked for a variety of professional services firms, including Arthur Andersen, a private equity firm and a Big Four accounting firm. What really drew me to BDO was its unique structure and emphasis on openness, accessibility and transparency. We have direct access to the firm's top technical resources, and we share leading edge technical issues with our clients as they come up.

Can you share with us your vision for the practice, and what you believe to be BDO's main differentiators?

Paul: The Financial Institutions and Specialty Finance practice has historically been focused on certain regions and niche markets, including community and industrial banks. We would like to expand our reach to include more national banks while continuing to serve our current client base at the highest level. Servicing middle market financial institutions is our sweet spot, and we differentiate ourselves from our peers by providing a high level of personalized services for these companies. Our DNA is centered around the way we handle and treat our clients, from the local to the national level.

Joe: That's exactly how I see it. As Paul mentioned, we plan to continue to move upstream and offer our services to markets outside of our local offices. We believe we have a unique advantage: BDO has many capabilities that most other firms don't have, including greater bandwidth to give clients the individual attention they need. We understand that as financial institutions grow, they face more oversight from the U.S. Securities and Exchange Commission (SEC), along with other regulatory bodies. Our challenge is to help clients of all sizes operate in today's highly regulated environment, without losing focus of their needs and strategic objectives.

What are the biggest pain points for middle market financial institutions, and how do they differ from those of larger players?

Paul: As Joe mentioned, the regulatory environment is becoming increasingly complex. There are two big developments coming down the pike: the Financial Accounting Standards Board (FASB)'s new revenue recognition standard and current expected credit loss (CECL) model. The former establishes principles that help companies report the nature, amount, timing and uncertainty of revenue from contracts with customers, while the latter changes the accounting for credit losses for certain instruments.

The challenge for many middle market banks is that they're expected to implement these changes with the same level of sophistication as the megabanks. A similar issue came up when

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the New York Department of Financial Services (NYDFS) issued its cybersecurity regulation, which, in the initial published draft, required compliance from all financial institutions equally, regardless of size. While this is a significant change for all banks, smaller banks that don't have the resources of their larger peers may feel the greatest impact.

Joe: It's becoming increasingly expensive for banks to do business, whether it's preparing for internal controls audits or keeping up with the complexity of financial reporting. One big frustration for bankers is that the oversight and implementation for many regulations tend to be very prescriptive; the burden can be very different for two similar banks. These additional compliance costs put serious pressure on margins and make it even harder for financial institutions to navigate the already low interest rate environment.

When considering these increasing compliance costs, how can banks survive?

Joe: The increase in non-operational costs over the years has led to more consolidation in the industry, as well as more pressure to scale. Many smaller banks are recognizing their inability to keep up with costs and consequently, the need to merge with another bank or grow quickly.

Paul: Banks today have three main growth options: organically, through mergers, or by looking outside the traditional banking model to acquire and adopt emerging technologies. The latter method is a work in progress, as many banks still see non-traditional models, such as FinTech, as both a threat and an opportunity. Many companies do want to go beyond traditional brick-and-mortar banking, and traditional banks are working hard to understand these "non-traditional" service models.

What advice would you give to your smaller and/or middle market clients?

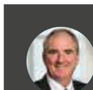
Paul: Regardless of size, all banks should stay true to their niche or customer base and focus on where they can deliver a real difference. Delivering excellent customer service should always be a top priority and includes being responsive and staying abreast of industry issues. This is especially important for community banks, where the customer base often appreciates a more hands-on approach to banking.

Joe: While the regulatory environment is constantly changing, banks do have a say in the products and services they offer and their ability to deliver. It's important they offer a variety of products and services in a one-stop shop, or their customers could seek other alternatives.

As we get closer to 2018, what should clients be thinking about when it comes to year-end planning?

Paul & Joe: Right now, our focus is on the implementation of the FASB's new revenue recognition standard, CECL and the accompanying documentation requirements. Regarding the former, Paul is the chair of the AICPA Depository and Lending Institutions Revenue Recognition Task Force, which has documented the required considerations.

Unfortunately, many banks are lulled into a false sense of security and non-applicability when it comes to revenue recognition, as not all will directly be impacted. A poll at a recent AICPA banking conference revealed that more than 70 percent of conference participants felt they were woefully behind in preparing for the new standard, which is not a promising sign. Many financial institutions are currently more focused on CECL, which affects them more directly. Nonetheless, organizations must prepare for both or risk falling behind.



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