I am a CPA with 30 years of experience including at a Big 4 public accounting firm plus both public and private corporations, and I have worked many years in the banking industry. As such, I have been a user and preparer of financial statements from a spectrum of perspectives.

My current institution is a non-SEC reporting microcap bank in a rural setting with around 500 shareholders that are mostly all personally known to management. The shares are thinly traded over the counter at a rate of a few hundred a month. A few more shares are traded privately between stockholders. No single investor holds a controlling interest in the C corporation and virtually all investors have an otherwise direct or indirect connection to the institution. About 20% of outstanding shares are in beneficial ownership and of that percentage over 90% are NOBOs. OBOs would typically be competitors or others seeking potentially prejudicial information from stockholder communications, not simply institutional investors.

I agree with the premises described in the differentiation between public and private companies and the need to simplify the financial statements according to objective and access to management. I fear however that the definition of a public company has often been misconceived to include any company whose stock is available to purchase over a public exchange and has been so broadly applied to encompass an entity such as ours due to a lack of concisely delineated standards. CUSIPs are often required by lenders and self directed IRAs and any stock could thereby become public—even outside of management’s control—merely by a shareholder registering a CUSIP in a brokerage account and the broker then offering them up for sale following any of a number of potential circumstances.

Even though our shares are traded through a limited number of brokers, no unconnected investor would purchase a material amount of stock that has no readily available exit opportunity. Most brokerage transactions that do occur are in fact between existing shareholders—though not necessarily known to the buyer and seller. The purpose of having an over the counter outlet for smaller corporations is to provide some liquidity between shareholders that doesn’t require management’s or the corporate transfer agent’s involvement in every transaction of small blocks.

I have discovered through numerous discussions with investors as well as through our bank’s own practice that the more voluminous and complex the disclosure, the less it is read. More is definitely not better in most cases and the efficacy actually diminishes with volume and complexity. In reality over disclosure is more common than inadequate disclosure and requires users to sift through confusing information looking for relevance. Any superfluous disclosure meant to inform a technically potential but rather unlikely investor, is merely a waste of already limited resources.

I applaud the concept of public vs. private presentation. I firmly believe that the definition of public company must involve a clear objective of purpose rather than the generalization that any listed or quoted stock is public. Volume or market cap or some metric of dispersion must also be a consideration to appropriately meet the cost benefit determination for disclosure requirements (geographical definitions also would not be appropriate in the internet and population mobility age).

Furthermore, the banking industry is already highly regulated and required to publish financial data in formats specifically designed by regulators to disclose the industry’s uniquely relevant information. All such data can readily be obtained by any member of the public with internet access or otherwise simply by request. Adding more layers of disclosure only decreases the utility, detracts from their purpose, or worse, results in
misunderstood financial statements. Leave the exotic, extended disclosures for companies with financial analyst and MBA followings.

Mark Lemmon, CPA
Executive VP/Chief Financial Officer
Bank of Eastern Oregon
PO Box 39
Heppner, OR 97836
Direct: 541-676-0224
Fax: 541-676-0226