

From: [Danielle Flynn](#)
To: [Comments, Public](#)
Subject: Review to Modernize Rules
Date: Monday, May 5, 2025 2:23:24 PM
Attachments: [image001.png](#)
[image002.png](#)

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In regards to Regulatory Notice 25-04

We would like to note that, in our opinion, the Net Capital Requirement using FASB 606 improperly penalizes firms for invoicing clients. Issuing an invoice in advance of receiving payment creates a corresponding dollar-for-dollar negative impact on Net Capital.

FASB 606 became effective for private companies in 2019. Under this standard, revenue must be recognized when the entity satisfies the performance obligation. For our retainers, this means recognizing revenue on a straight-line basis over the life of the engagement.

Key Points:

- **During the month an invoice is issued:**
 - **Accounts Receivable** increases by the invoice amount.
 - **Unearned Revenue** is recorded at the full invoice amount.
 - **Retained Earnings Impact** is \$0.
- **Net Capital Calculation:**
 - Accounts Receivable is considered a Non-Allowable Asset.
 - Therefore, when an invoice is issued:
 - Retained Earnings does not increase.
 - Non-Allowable Assets increase.
 - This results in a temporary reduction in Net Capital.

Financial Impact:

- The company is financially better off before the invoice is issued and after the invoice is paid.

Net Capital - Impact of 606 Demonstration

When Colonnade issues an invoice and it is paid later in the month, but still in the same month, the adjustment for "Accounts Receivable" has a double negative impact on the company. FASB did not keep up with the change in accounting standards.

This demonstrates that Colonnade is worse off by issuing an invoice prior to the date of payment

Assumptions

Retainer \$100,000
 Term 18 months
 Invoice Date 2/5/24
 Payment Date 2/10/24

	With the Impact of FASB 606					Before FASB 606 Passing and Applied in 2019				
	2/1/24	2/5/24	2/10/24	2/28/24	5/30/24	2/1/24	2/5/24	2/10/24	2/28/24	5/30/24
Balance Sheet										
Assets										
Cash	\$0	\$0	\$100,000	\$100,000	\$100,000	\$0	\$0	\$100,000	\$100,000	\$100,000
Accounts Receivable	\$0	\$100,000	\$0	\$0	\$0	\$0	\$100,000	\$0	\$0	\$0
Total Assets	\$0	\$100,000	\$100,000	\$100,000	\$100,000	\$0	\$100,000	\$100,000	\$100,000	\$100,000
Liabilities										
Unearned Revenue	\$0	\$100,000	\$100,000	\$94,444	\$77,778	\$0	\$0	\$0	\$0	\$0
Shareholder's Equity										
Retained Earnings	\$0	\$0	\$0	\$5,556	\$22,222	\$0	\$100,000	\$0	\$0	\$0
Total Liabilities and Shareholder's Equity	\$0	\$100,000	\$100,000	\$100,000	\$100,000	\$0	\$100,000	\$0	\$0	\$0
Net Capital Calculation										
Total Assets	\$0	\$100,000	\$100,000	\$100,000	\$100,000	\$0	\$100,000	\$100,000	\$100,000	\$100,000
Less Total Liabilities	\$0	\$100,000	\$100,000	\$94,444	\$77,778	\$0	\$0	\$0	\$0	\$0
Net Worth	\$0	\$0	\$0	\$5,556	\$22,222	\$0	\$100,000	\$100,000	\$100,000	\$100,000
Less: Non-Allowable Assets: Accounts Receiv	\$0	-\$100,000	\$0	\$0	\$0	\$0	-\$100,000	\$0	\$0	\$0
Net Capital	\$0	-\$100,000	\$0	\$5,556	\$22,222	\$0	\$0	\$100,000	\$100,000	\$100,000

Thank you.

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