

October 29, 2003

Director, TA&I-FSP Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

To Whom It May Concern:

I am writing to comment on Proposed FASB Staff Position No. FAS 150-c, and its particular impact on co-operatives. I request that the Board consider deferring the effective date for these instruments two years to fiscal periods beginning after December 15, 2005. It could take cooperative businesses and other nonpublic entities at least that long to make the changes in their capitalization plans and structures that this pronouncement might force them to make.

While the Proposed FASB Staff Position only addressed the effective date for these instruments, I further request that the Board clarify that member equity in a cooperative business is not mandatorily redeemable when the board of directors retains the authority to redeem that equity.

Members of a cooperative join primarily to receive the benefit from patronizing the business, not to receive a return on their investment. Members provide equity capital to the cooperative to finance its business operations, but they recognize that this equity is risk capital. The board of directors of a cooperative may choose to redeem equity to deceased members or others no longer doing business with them in order to keep ownership in the hands of members actively doing business with the cooperative. However, attempts to align ownership of the cooperative with its use by members are always subject to the fiduciary duty of the board of directors to the financial wellbeing of the entire cooperative.

In a retail cooperative such as ours, where earnings margins are typically thin, member equity is roughly the same value as accumulated retained earnings. A requirement that forced us to reclassify member equity as a liability would devastate our balance sheet and be quite misleading as to the real financial structure of the cooperative. Adoption of FAS 150 for retail coops would be a case in which an accounting standard clouded the accuracy of the business's financial health, rather than illuminating it. While our Board of Directors has approved equity redemptions from time to time, these have never been of an order of magnitude that would materially reduce the value of paid-in equity, and indeed, member equity has continued to grow along with the Co-op. Under

the proposed FAS 150, this would be reflected as an increase in debt! I find it hard to believe that this is what FASB intends.

Member equity always retains the character of equity and the board of directors has the discretion to redeem or not to redeem it. Courts have affirmed that the board of a cooperative can "exercise the discretion it has been granted to determine when the cooperative is financially able to redeem patronage equity," Great Rivers Cooperative v. Farmland Industries, 198 F.3d 685 (1999). The board does not have this discretion for debt owed by the cooperative. When a cooperative finds itself in bankruptcy, all of the creditors are paid before any of the equity held by members is redeemed.

Many accountants familiar with the policies and practices of cooperatives plan to continue presenting member equity in a cooperative as equity on its balance sheet. At least one accountant, though, has notified its cooperative client that it intends to reclassify member equity as a liability based on its interpretation of FAS 150. Since there appear to be divergent practices among accountants on this issue, the Board should clarify its position and hold that member equity in a cooperative is not mandatorily redeemable and will be treated as equity on a cooperative's balance sheet when the board of directors retains the authority to redeem that equity.

Reclassifying member equity in a cooperative as a liability on its balance sheet could also result in a legal obligation to redeem that equity. The authority of the cooperative's board of directors, now recognized by law, will be compromised and member equity would truly become mandatory obligations of the cooperative. This would seriously impair the ability of cooperatives to raise and retain capital for their business operations.

Thank you for your kind consideration of my proposal.

Leslie Milty Leslie Nuky, General