

**Franklin Community Cooperative, Inc. d/b/a Green Fields Market**

Director, TA&I-FSP  
Financial Accounting Standards Board  
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To Whom It May Concern:

I am writing to comment on Proposed FASB Staff Position No. FAS 150-c. I support deferring the effective date of Statement 150 for mandatorily redeemable financial instruments of nonpublic entities for at least one year. 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. I request that the Board consider deferring the effective date for these instruments two years to fiscal periods beginning after December 15, 2005.

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 well-being of the entire cooperative.

Member equity, though, 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 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.

Our coop does not now have loans with covenants that would be adversely affected by this change. However, we as a small business would have to explain this treatment to our lenders, and it is possible that we would receive unfavorable treatment as a result of the confusion.

I also think there are two reasons why coops are a particular case deserving of separate rules. First, there is the concentration of risk factor. A public or private, conventional stock corporation allows unlimited share of investment by a single investor. Essentially all equity could be redeemed in a single instance of mandatory redemption. Coops, as consumer owned businesses, often have one-share per owner equity schemes. It is unlikely that a significant portion of the shares would be redeemed at once, unless the coop was in dire straits (in which case the Board of Directors would have likely invoked their "no redemption" covenant in a suitably proactive manner.)

Coops are, by nature, patronage-based organizations. A member purchases a share in order to participate in the business of the coop. This makes it less likely that shares would be redeemed, except if the member no longer is a customer. This is a self-limiting mechanism, where the coop business, and perhaps its need for equity, grows and shrinks with its equity. In a conventional stock company, there is no natural linkage between share investment, patronage, and the scale of the business. Purchase and redemption of individual shares in a coop is part of the natural flow of business, and does not diminish the character of the investment or create a liability. The diffuse nature of coop equity (at least in food retailer coops, of which we are one) protects creditors from the risk of unplanned stock redemptions.

Thank you for considering my comments.

John Eichholz