



RURAL TELEPHONE FINANCE COOPERATIVE
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Letter of Comment No: 88
File Reference: 1100-LEU
Date Received: 10/27/03

October 27, 2003

Mr. Robert Herz
Chairman
Financial Accounting Standards Board
401 Merritt 7, Post Office Box 5116
Norwalk, Connecticut 06856-5116

Re: Statement of Financial Accounting Standards No. 150, Accounting for Certain
Financial Instruments with Characteristics of both Liabilities and Equity

Dear Chairman Herz:

Thank you for this opportunity to comment on FAS 150 and its impact on financial reporting by rural telecommunications cooperatives.

A brief introduction to RTFC

Rural Telephone Finance Cooperative ("RTFC") provides and / or arranges financing for its rural telecommunications members and their affiliates. As of May 31, 2003 RTFC reported loans outstanding of \$4,942,640,000 to its member telecommunications systems of which [one hundred and nine (109)] are cooperative associations. RTFC was incorporated as a cooperative association in the state of South Dakota in September 1987. Its sole funding source is loans from National Rural Utilities Cooperative Finance Corporation.

Impacts on rural telecommunications cooperative financial reporting

Financial statements issued for fiscal periods beginning after December 15, 2004, by nonpublic cooperatives, are required to report certain financial instruments as liabilities. Among those instruments, according to FAS 150, are cooperative capital credits assigned to members, if they are mandatorily redeemable upon an event certain to occur. As an act of benevolence to their members, many telecommunications cooperatives from time-to-time grant special, early redemptions of decedents' equity capital investment in the cooperative. Therefore, although subject to the discretion of the cooperative's governing board, such grants may be construed to be mandatory, for purposes of application of FAS 150, and cause reclassification of residential member assigned capital credits to liabilities. That reclassification would significantly reduce the reported equity capital of many RTFC member-borrowers.

Some telecommunications cooperatives adopt plans to grant regular capital credit redemptions, typically on first-in / first-out cycles of up to twenty (20) years. Therefore, FAS 150 might be construed to require reclassification of assigned capital credits to liabilities even for those cooperatives which have no regular practice of granting special

To: Mr. Robert Herz

Subject: Statement of Financial Accounting Standards No. 150

Page: 2

redemptions to decedent's estates. Telecommunications cooperatives usually regard these payments as yields on the investments of their members rather than liquidations.

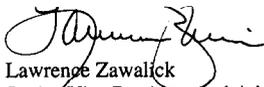
RTFC's reliance on financial statements for credit analysis

RTFC supports the efforts of Financial Accounting Standards Board to assure that financial reporting provides information that is useful in making business and economic decisions including assisting investors and creditors in assessing the amount, timing and likelihood of potential future cash outflows. By way of illustration of such reporting, FAS 150 Appendix A, "Implementation Guidance" presents stock to be redeemed upon death of the holder as an example of a financial instrument to be reported as a liability. The illustrative mandatory redemption is different from both special and regular capital credit redemptions in that the telecommunications cooperatives are not contractually bound to make them. To report member equity as a liability before dividends are declared by a cooperative's governing board would understate member's equity at risk in the enterprise as well as the credit cushion protecting secured lenders.

In the course of providing financing to its member telecommunications systems RTFC routinely assesses the financial strength and creditworthiness of its cooperative and shareholder-owned borrowers. RTFC's experience is that cooperatives are not riskier borrowers than shareholder-owned telecommunications businesses. Therefore, to require cooperatives to reduce their reported equity capital in compliance with FAS 150 would distort comparisons of shareholder- and consumer-owned enterprises. The value of the information reported by cooperatives would be impaired, not strengthened.

RTFC respectfully requests reconsideration of the applicability of FAS 150 to telecommunications and other cooperative businesses.

Sincerely,



Lawrence Zawalick
Senior Vice President and Administrative Coordinator