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October 30, 2003

Mr. Robert Herz, Chairman
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

Letter of Comment No: 84
File Reference: 1100-LEU
Date Received: 10/30/03

Re: FASB Statement No. 150

Dear Chairman Herz:

I am a CPA in public practice. One of my major clients is a telephone cooperative that would be dramatically affected by FASB Statement No. 150. This cooperative operates on an at-cost basis, annually allocating the excess of revenues over expenses to its consumer-owners on the basis of each consumer's patronage. Such excess revenue – allocated to consumer-owners but retained by the cooperative for use in the business – constitutes the primary source of equity for the cooperative. At such time as the cooperative's board of directors determines that the cooperative is financially able to do so – and also within the contractual confines of the cooperative's security instrument and loan agreements, the board of directors may elect to redeem a portion of consumer-owners' equity in the cooperative via payments of cash.

The cooperative obtains its debt capital from the Rural Utilities Service (RUS), a lending agency of the U.S. Department of Agriculture, and the Rural Telephone Bank. RUS has also provided comments to the Board regarding the detrimental effects of FASB Statement No. 150 on electric and telephone cooperatives. Of immediate and particular concern to me and my client in FASB Statement No. 150 are requirements concerning classification of mandatory redemptions of equity capital to decedent estates as a liability. We strongly believe that all allocated excess revenue of telephone cooperatives should continue in accordance with past accounting practice universally applied by all U.S. cooperatives to be reported as equity.

My client, like most telephone cooperatives, as an act of benevolence to their consumer-owners, have historically granted early redemptions of a consumer-owner's equity capital investment in the cooperative at the consumer-owner's death. These early redemptions are provided to decedent estates primarily because a consumer-owner's investment in a cooperative is illiquid; that is, the equity cannot be sold. In settling the estate, therefore, an executor or administrator is benefited by having the cooperative equity investment converted to cash, so that the estate can be timely settled. While, according to most telephone cooperative bylaws, early redemptions to decedent estates, as a legal matter, are not technically "mandatory" – but rather are granted at the discretion of the cooperative's board of directors, most cooperative board of directors routinely and without exception approve these early redemptions. In several national cooperative associations discussions with FASB staff, FASB staff expressed an unofficial view that routinely granted early redemptions

should likely constitute a constructive obligation of the cooperative and probably are not sufficiently conditional as to warrant their continuing to be presented as cooperative equity under Statement No. 150.

Since all natural persons will die at some point or another, the FASB staff's treatment would require that all the cooperative's equity – except for equity derived from the cooperative's corporate members – be reclassified as debt. With such thin levels of equity, most of these cooperatives would find themselves – pursuant to their security instruments and/or loan contracts – at best, unable to issue additional secured debt and at worst, in technical default. I strongly believe that application of this provision would inhibit the transparency of a telephone cooperative's financial statements.

In the first place, while the cooperative's board may have in the past, routinely and without exception, granted early redemptions to decedent estates, for most cooperatives, there is no requirement to do so in the future. Indeed, for most cooperatives, to make any redemption of equity (i.e., to decedent estates or otherwise), the board of directors must determine that the cooperative – considering its liquidity, equity position, etc. – is financially able to do so. Hence, reclassifying a telephone cooperative's allocated excess revenues to natural persons would overstate the cooperative's liabilities.

In the second place, application of this provision would detract from the comparability of cooperative financial statements vis-à-vis those of public investor-owned firms. (For public investor-owned firms, of course, there is usually no need for the firm to repurchase its stock at an owner's death because the stock can simply be sold in the stock markets.) Indeed, to most cooperatives, the liability treatment being prescribed seems an improper application of form over substance. As mentioned above, allocated excess revenues are in substance the cooperative's primary source of equity. To reclassify all such equity allocated to natural persons as a liability solely because the cooperative's board of directors has granted early redemptions to decedent estates in the past would inaccurately present the financial position of cooperatives as comparing poorly to that of public investor-owned firms.

If the Board does not act to exclude nonpublic companies, like telephone cooperatives, from the scope of Statement No. 150, most cooperatives will likely be forced to cease their practice of providing early redemptions to decedent estates. The required liability treatment would simply be too detrimental to cooperatives' reported financial position. This unfortunate required change in cooperative policy would, of course, make the task of estate administrators and executors lengthier and more difficult.

I, therefore, respectfully urge the Board to exclude nonpublic companies from the scope of Statement No. 150. If, on the other hand, the Board does not act to exclude nonpublic companies from the scope of Statement No. 150, I respectfully urge the Board to grant an additional year for nonpublic companies to implement the accounting standard. My client and other telephone cooperatives will likely find it desirable to modify some of their bylaw provisions as a result of Statement No. 150. Because most cooperatives can only implement bylaw amendments by action of the cooperative membership at the annual meeting and my client's annual meeting has already taken place, more time beyond the end of this calendar year is needed to adopt desired bylaw changes.

I sincerely appreciate the Board's consideration of my requests.

Sincerely,

Nichols, Rise & Company, L.L.P.

Scott B. Bieber

Scott B. Bieber, Partner