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October 31, 2003

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

I am writing to comment on Proposed FASB Staff Position No. FAS 150-c ("FAS 150") specifically with regard to the impact the proposed guidelines will have on businesses organized as cooperatives.

First, at a minimum, I support deferring the effective date of FAS 150 for mandatory 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 assess and implement the changes in their capitalization plans and structures that this pronouncement may require. Based on the initial feedback from a number of cooperatives, there auditors have provided little guidance as to the required changes to their articles and bylaws that would be acceptable to continue to classify the member capital invested in their cooperatives as equity. The proposed timeline for implementation places a material hardship on these entities and may impair their access to the debt capital markets if the effective date is not deferred. I request that the Financial Accounting Standards Board ("FASB") consider deferring the effective date for these instruments two years to fiscal periods beginning after December 15, 2005.

While the FAS 150 only addressed the effective date for these instruments, I further request that the FASB clarify the guidelines with respect to member equity in a cooperative business or consider excluding companies organized on a cooperative basis from the proposed guidelines. From a global perspective, I have outlined the rationale for my position as follows:

While the goal of the proposed guidelines to fully disclose the use of derivative financial instruments is reasonable, given the abuse and financial losses investors have incurred, as proposed the guidelines may materially and negatively impact the capital availability of cooperative organizations. First, the basic business model of a company operated on a cooperative basis and the interrelationship between the cooperative and its members/shareholders does not conform to the fact pattern for an investor in a company that has entered into a contract that is classified as a derivative financial instrument. The various types of investments that shareholders have in cooperatives that are subject to specific redemption provisions are totally different than the characteristics of a derivative

financial instrument that an investor would enter into in order to minimize or mitigate the risk of an investment in a company. For example, the motivation to invest and the anticipated holding period of the investment of an investor in a cooperative does not match that of a pure investor that is solely focused achieving a return on the underlying investment. A member/shareholder of a cooperative invests in that entity to derive the benefits of the product or services provided by the cooperative. For many small businesses across a broad range of industry sectors, an investment in a cooperative is an essential element to the success of their own businesses and the decision to redeem their investment in a cooperative is driven primarily by their decision to retain that investment in their own business.

Further, the capitalization plans of most cooperatives are constrained and governed by tax codes and security regulations while attempting to create an equity solution for members of the cooperatives based on their past and current patronage of the business. The complex nature and specific goals of a cooperative organization's capital structure make FAS 150's guidelines the equivalent of putting a square peg in a round hole. The simplest solution would be to exclude business operating on a cooperative basis from the proposed guidelines.

Focusing on the specific issues that the proposed FAS 150 creates for companies that operate on a cooperative basis, the primary issue is the obligation under the member/shareholder agreement of most cooperatives to redeem the investments of a shareholder that is terminating their business relationship with the cooperative. Specifically this relates to the concept of creating an "obligation that is certain to occur" to redeem shares. Logic would suggest that it is a sound business practice for a cooperative to agree to redeem the member capital invested in a cooperative when the member terminates their business relationship with the cooperative. Although the notification period to redeem member capital and timing of the redemption varies between cooperatives, the board of directors and management of the cooperative can assess the potential liquidity requirements to redeem member equity accounts in the foreseeable future. Unlike most investor owned entities, the articles or bylaws of cooperatives provide the ability to issue an equity call on the shareholders through retaining a portion of the annual patronage rebates in the form of equity and increase the equity requirements required to maintain membership. In effect, this can raise equity without diluting the existing shareholders. In addition, historically cooperatives are attracting sufficient new members that provide new equity capital to replace those members that are seeking to exit the cooperative. The point is that cooperatives have more options to create liquidity and manage the redemption of shares than investor owned entities. How many investor owned entities have the unconditional right to implement an equity call? This clearly is an argument for exempting cooperatives from this provision.

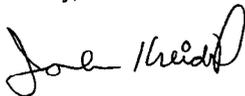
The second issue that is of concern to many cooperatives is the requirement to reclassify member capital investments as liabilities upon the occurrence of a conditional event. Historically, cooperatives have treated equity, where there has been proper notice per the

bylaws of the cooperative, as a liability. The issue is what is the appropriate definition of a "conditional event"? I believe the appropriate definition is when a member provides proper notice of their intent to redeem shares. The feedback that has been received by a number of cooperatives from their outside accountants appears to be that the proposed definition of a conditional event could be much more far reaching.

Finally, one of the fundamental issues that many cooperatives have with the proposed guidelines is the fact that the obligation to retain member capital is clearly defined in the shareholder/member agreements, but the authority and guidelines for suspending redemptions of member equity was not clarified to the satisfaction their outside accountants. From a fiduciary standpoint, it is clear that the board of directors of a cooperative is obligated to redeem member equity. However the existence of that obligation to redeem member equity does not translate into a time certain event. 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)*. From a fiduciary standpoint, a board of directors would be required to suspend redemptions of member capital in the event that a cooperative does not have sufficient liquidity although the specific criteria to cause such an event might not be outlined in the shareholder agreements. Further clarification is required on this issue.

In summary, 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 FASB should clarify its position and hold that member equity that is not subject to mandatory redemption be treated as equity on a cooperative's balance sheet when the board of directors retains the discretion 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. We are in the process of revising our capitalization plan and respectfully request, at a minimum, the deferral of the implementation and clarification of the above issues or, further, the exemption from the guidelines of businesses that operate on a cooperative basis.

Sincerely,

A handwritten signature in black ink, appearing to read "John Kreidel". The signature is fluid and cursive, with the first name "John" being more prominent than the last name "Kreidel".

John Kreidel  
*President and CEO*  
Cc: Bruce Campbell