

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 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 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.

At Minn-Dak Farmers Cooperative, we have a practice of allowing estates to either transfer the equity to a beneficiary of the estate, or requesting the equity to be paid out on a net present value basis.

Minn-Dak Farmers Cooperative's By Laws do not set a fixed equity revolvement formula, rather they give the Board of Directors the discretion to set and modify the rules for equity revolvement as they determine are in the best interests of the cooperative. Our current equity revolvement period is less than 10 years in length.

Of our \$25MM of patronage equity, less than \$250,000, or 1% is normally distributed annually to estates in the form of cash. Our current policies do not fall within the Statement 150 guidelines. Our concern is the tightening of those guidelines at a later date, which would force MDFC to stop a practice that benefits, some farm families struggling with a financial crisis created by a death in the family.

If MDFC were ever determined to fall within a modification of the Statement 150 guidelines, our debt/equity ration would go from 1:.62 to 1:1.33 thereby making our debt more difficult to access and at a much higher premium to our current costs.

Sincerely yours,

Allen E Larson

Controller