

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

October 21, 2003

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 mandatory 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 mandatory 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 business, First Alternative Cooperative, started business 30 years ago as a not-for-profit cooperative membership organization. For many years membership fees were recorded as income and redemptions were recorded as expense. Four years ago the bylaws were restated and filed under the laws of the State of Oregon, which changed our organization to a legally recognized consumer cooperative. In accordance with our bylaws, an owner can purchase only one share, which entitles them to one vote. Ownership shares are issued and recorded on the balance sheet as owner equity. Our bylaws further state that a redemption request will be "redeemed as soon as replacement capitol has been secured by the Co-op from a new owner." Over the past thirty years there has never been a "run" on redemptions. In most cases, when an owner dies or leaves the area, they donate their owner share back to the coop instead of requesting a refund. We honored and gave refunds for 59 shares (\$4,130) in 2002 and 56 shares (\$3,920) in the first 9 months of 2003. In all cases, replacement capitol was obtained. Given this history, it does not seem logical to reclass our 4,565 of owner shares, valued at \$319,550 at 9/30/03, as debt.

In the last several years our grocery cooperative has expanded at its current location and leased a second store. Both of these projects required a great deal of capital to be raised. We received loans from our owners, the bank, and the Department of Encrgy. If we had covenants attached to any of these loans relative to debt as a percentage of equity or assets, or the maintenance of certain financial ratios, FAS 150 would cause us be in default of the terms of these loans. Further, if FAS 150 had gone into effect two years ago, causing us to restate equity as debt, our co-op would not have been eligible for any loans because standard financial ratios would not be comparable to any other typical corporation or business, and would not meet financial requirements. Our ability to grow, create new jobs, and contribute to our community could be severely hampered by FAS 150 as currently written.

A reasonable period of time needs to be allowed to comment on FAS 150, develop clear interpretations by the accounting community, and put plans in place for affected businesses. Because of the potential for severe consequences from the restatement equity to debt as a result of the implementation of FAS 150, the Board of First Alternative Cooperative supports extending implementation of this rule for no less than one year, and preferably two years

Sincerely yours,

Gerald Heilman, Board President
First Alternative Cooperative
1007 SE Third Street
Corvallis, OR 97333