

October 24, 2003



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 mandatorily 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 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

Proposed FSP on Statement 150 (FSP FAS 150-c)

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obligations of the cooperative. This would seriously impair the ability of cooperatives to raise and retain capital for their business operations.

The equity in a cooperative is much different than a typical buy/sell agreement in a small business that requires the parties to undertake transactions. In a cooperative, redemption of equity is always optional. The rules on constructive obligation from Concepts Statement No. 6 may appear to apply to some cooperatives. But application of this interpretation for a future event will result in inconsistent accounting presentation of equity in cooperatives. This could lead to presentation where a struggling cooperative that has exercised its right not to redeem its equity would show an equity balance, while a successful cooperative that is regularly redeeming its equity might show no equity.

Another reason to consider delay and clarification of implementation of FAS 150 for cooperatives is that if the rules are applied requiring reclassification of significant equity to liabilities there will need to be an extended period to educate members, bankers, bonding companies, state regulators and others to the new presentation. In Wisconsin, for instance, grain elevator operators must meet mandated debt to equity ratios or they are required to post substantial bonds to guarantee that farmers using the elevator are protected. This can be a significant cost. Access to capital may also be curtailed for cooperatives since bankers are typically unsophisticated users of financial statements and may not want to be involved with businesses with little equity.

Thank you for your time and consideration.

Very Truly Yours,



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Manager