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From: Jkfam8@aol.com [mailto:Jkfam8@aol.com]

Sent: Monday, September 22, 2003 11:40 PM

To: FASB Comments

Subject: Comments on FASB 150
Financial Accounting Standards Board

Re: FASB 150

The Board is asked to reconsider their position on "Mandatorily redeemable financial instruments include... stock that must be redeemed upon the death or termination of the individual who holds it, which is an event that is certain to occur." This position is very detrimental to many small closely held businesses.

The event of death may be certain; however the mandatory redemption from the entity perspective is not certain for the following reasons:

1. The business may be sold long before and stock or investment is redeemed.
2. State law may prevent the redemption if it would affect creditors.
3. The buy/sell agreement may be changed in the future.
4. The shareholder may sell his investment to others.
5. The business interest may be transferred to the next generation.

Even if the stock is redeemed it may be one year or 40 years before the event happens. It seems totally unrealistic to have this future possible buy back shown as a liability, eliminating all equity and possibly creating negative earnings because the total purchase of all of the owners is greater than the book value. The average small business person will not understand why his financial statements should reflect a liability merely because of the method used in his/her buy/sell agreement. Will the bankers understand it and what will it do to bank covenants for debt to equity ratios?

The position will cause a financial hardship for many small businesses

1. Buy/sell agreements will have to be changed to shareholder cross purchase agreements causing increased legal fees.
2. If cross purchase agreements are set up it may require multiple life insurance policies on each owner vs. entity owned policy on each owner.
3. If the corporation retains a mandatory agreement subject to the provisions of FASB, it is likely additional time and cost will be required in obtaining bank financing.
4. If the agreement is changed to a cross purchase agreement or a right of first refusal, the owners may not be able or willing to have a mandatory purchase obligation. This would be a burden on the heirs, since unlike listed companies there is no market, for the investment other than the company or other owners.

I presently represent an estate with exactly that problem. The shareholder agreement requires a sale back to the company, but the company has no mandatory purchase agreement, only a

voluntary corporate repurchase plan that is suspended because of economic conditions. How many more situations will be created by FASB 150?

In addition this will cause a loss of business for CPA firms. Some business entities will have other accounting service providers prepare statements that are not in accordance with GAAP. Even if the CPA firm does not lose the client, there will be a degrading of the financial statements. Clients not requiring an audit will ask to have their statements prepared on other comprehensive basis of accounting such as "tax basis"

The Board should change this FASB for closely held business to require full disclosure of redemption agreements with potential obligations but require reclassification to a liability only when a trigger event has actually happened.

Thank you for your consideration

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