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To: Director - FASB
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LETTER OF COMMENT NO. 60

Reference #1550-100

I wish to submit the following comments regarding Preliminary Views – Financial Instruments with Characteristics of Equity (PV). I apologize for the tardiness of this submission and I hope you will be able to consider them, because I feel the PV does not accommodate the cooperative model of organization and operation.

Cooperative equity is composed of the following elements:

- Par value of member common stock – Class A
- Allocated reserves – undistributed portion of patronage refunds of Class A members - Class B
- Preferred stock – Class C
- Retained earnings – accumulated non-patronage retained earnings.

In determining classification of equity/liabilities, the PV in the basic ownership approach states the basic ownership interest has a claim to assets with no priority in liquidation, and is measurable as a percentage of assets remaining after all higher priority claims are satisfied.

If basic ownership interest is redeemable – mandatorily or at option of holder – it must meet above conditions by:

- amounting to the same value determined in liquidation
- not impairing higher priority claims at redemption

Net assets may be determined at book value of both

- redemption value approximates fair value
- no active market exists for shares and they must be exchanged only with entity.

The above is an accurate summary, although abbreviated, I am sure of the current FASB position in this matter. I have the following concerns:

1. The measurements and conditions applied seem to be requiring a liquidation accounting classification of equity and liabilities in all cases, rather than a going concern classification. This is especially true in the case of cooperatives which have significant amounts of allocated reserves. According to the PV, these would have to be classified as liabilities in the case of redeemable stock as discussed below. In addition, retained earnings might also be substantial in amount if there were no patronage refunds declared in years of establishing the business. Requiring the classification of any or all of these amounts as liabilities would seriously distort the financial position of a co op on the basis of a going-concern operation.
2. As stated, these proposals do not take into consideration the cooperative model. This is especially true with redeemable stock – which is probably universal with co-ops and coupled with the existence of allocated reserves, which may be significant, makes the application of these proposals problematic at best.
Example – if the co-op's by-laws call for the refunding of a withdrawing Member's Class A stock at par value, but no amount of his Class B stock (allocated reserves or unpaid portion of patronage refunds), the total of

Allocated reserves and possibly the Class A stock itself must be classified as liabilities and this is true even if the same member would receive his share of allocated reserves on liquidation . This would also appear to be the case with retained earnings, built up in the early years of operations and clearly equity of the co-op.

I feel that a separate section of the FASB Project should be set up to consider these issues from a cooperative stand point, which would result in standards correctly reflection the co-op model.

ROE

Treasurer and Board Member VNF