Food Conspiracy Cooperative, Inc. 412 N. 4th Ave., Tucson, AZ 85705

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

To Whom It May Concern:

I am writing to comment on Proposed FASB Staff Position No. FAS 150-c. I oppose the reclassification of equity to debt for owners investment in cooperatives. Many cooperatives are reliant on debt/equity ratios to maintain their long-term notes. Reclassification may endanger their very existence. I also 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. I also request that the Staff not classify commonly invested equity (i.e., where cooperatives require a refundable investment that is equal per member) to debt. On an accounting definition level, it does not make sense to me to classify a refundable investment that the cooperative member makes as debt, when there is no date of re-payment tied to it. In the case of many consumer cooperatives, such as our own, such member equity is only redeemable upon the member's (or by member's power of attorney) request for redemption, which may happen all the way through the death of the member.

Many 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.

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 appears 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.

If and equity is required to be reclassified as debt for our cooperative, the furtherance of economic expansion of our cooperative will be hindered. This reduction of expansion will be placed on our cooperative by any bank providing funding, when it looks at the Debt/Equity ratio. To show the effect of reclassifying our current equity to debt, for example, this is what would happen to our numbers, as of 9/30/03.

Pre-reclassification:

Debt equals \$78,011 Equity equals 547,038

Debt/Equity ratio equals 0.14 Post-reclassification of 170,260 in member equity:

Debt equals \$248,271 Equity equals 376,778 Debt/Equity ratio equals 0.66

In our economic niche, banks rely heavily on the debt/equity ratio when making loans. We are a small cooperative, so the impact on the greater economy will be limited. However, consider the billions of dollars of activity that cooperatives all over the nation. Many cooperatives will have to scale their expansions back dramatically due to increased borrowing restaint. The effect on the U.S. economy would be substantial.

Sincerely,

Russell J. Lowes Finance Manager 520-624-4821