SDAC
"PULLING TOGETHER"
SOUTH DAKOTA ASSOCIATION OF COOPERATIVES

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October 29, 2003

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

To Whom It May Concern:

On behalf of members of South Dakota Association of Cooperatives, I wish to submit comments on Proposed FASB Staff Position No. FAS 150-c.

SDAC supports deferring for at least one year the effective date of Statement 150 for mandatorily redeemable financial instruments of nonpublic entities. Such a delay will provide cooperative businesses and other nonpublic entities time to review the impact and implement the changes in their capitalization plans and structures that this pronouncement might force them to make. We would ask that the Board consider deferring the effective date for these instruments at least two years to fiscal periods beginning after December 15, 2005.

Having addressed the Proposed FASB Staff Position which only addressed the effective date for these instruments, we 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. Doing otherwise will have an enormous impact on the balance sheet of every cooperative and hit smaller ones the hardest.

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. 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.

Accounts that we have visited with who are familiar with the policies and practices of cooperatives plan to continue presenting member equity in a cooperative as equity on its balance sheet. However, it has come to our attention that 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, we encourage the Board to 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.

Upon visiting with several accountants as to the impact of FAS150 on balance sheets of our state's cooperatives, comments were very consistent - "it would have a devastating impact."

We thank you for your time and consideration of our comments. Please feel free to contact us if you have any questions or comments.

Sincerely,

Brenda Forman

Brenda Forman
Executive Secretary

CC: Senator Tom Daschle
Senator Tim Johnson
Representative William Janklow