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National Rural Electric Cooperative Association

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August 25, 2003

Mr. Robert Herz Chairman Financial Accounting Standards Board 401 Merritt 7, P.O. Box 5116 Norwalk, CT 06856-5116

Re: FASB Statement No. 150

Via E-mail and FedEx

Dear Chairman Herz:

The National Rural Electric Cooperative Association (NRECA) has noted that in Action Alert 03-33 the Financial Accounting Standards Board (Board or FASB) is scheduled on August 27th to "discuss whether to reconsider whether nonpublic entities should be exempt from applying, or given further time to apply, the provisions of FASB Statement No. 150..." On behalf of its membership, NRECA respectfully urges the Board to exclude nonpublic entities from the scope of Statement No. 150, or, at a bare minimum, to grant a one-year extension in nonpublic entities' required implementation date.

NRECA is the national trade association representing approximately 930 electric cooperatives providing electricity to more than 36 million consumer-owners in 47 states. Of the 930 electric systems, 64 are electric generation and transmission cooperatives (G&Ts) that are owned by and sell power at wholesale to some 750 of the 866 electric distribution cooperatives. All of these cooperatives operate on an at-cost basis, annually allocating the excess of revenues over expenses to their consumer-owners on the basis of each consumer's patronage. Such excess revenue – allocated to consumer-owners but retained by the cooperative for use in the business – constitutes the primary source of equity for the cooperative. At such time as the cooperative's board of directors determines that the cooperative is financially able to do so – and also within the contractual confines of the cooperative's security instrument and loan agreements, the board of directors may elect to redeem a portion of consumer-owners' equity in the cooperative via payments of cash.

Substantially all NRECA members obtain their debt capital from the Rural Utilities Service (RUS), a lending agency of the U.S. Department of Agriculture, and/or from the

National Rural Utilities Cooperative Finance Corporation (CFC), a cooperative financial institution owned by the nation's electric cooperatives themselves. Both RUS and CFC are also providing comments to the Board regarding the detrimental effects of FASB Statement No. 150 on electric cooperatives.

Of immediate and particular concern to NRECA members in FASB Statement No. 150 are requirements concerning classification of mandatory redemptions of equity capital to decedent estates as a liability. NRECA strongly believes that all allocated excess revenue of electric cooperatives – especially nonpublic cooperatives, but also the few public cooperatives as well – should continue in accordance with past accounting practice universally applied by all U.S. cooperatives to be reported as equity.

Most electric distribution cooperatives, as an act of benevolence to their consumerowners, have historically granted early redemptions of a consumer-owner's equity capital investment in the cooperative at the consumer-owner's death. These early redemptions are provided to decedent estates primarily because a consumer-owners' investment in a cooperative is illiquid; that is, the equity cannot be sold. In settling the estate, therefore, an executor or administrator is benefited by having the cooperative equity investment converted to cash, so that the estate can be timely settled.

While, according to most electric cooperative bylaws, early redemptions to decedent estates, as a legal matter, are not technically "mandatory" – but rather are granted at the discretion of the cooperative's board of directors, most cooperative board of directors routinely and without exception approve these early redemptions. In NRECA's discussions with FASB staff, staff expressed an unofficial view that routinely granted early redemptions should likely constitute a constructive obligation of the cooperative and probably are not sufficiently conditional as to warrant their continuing to be presented as cooperative equity under Statement No. 150.

Since all natural persons will die at some point or another, the staff's treatment would require that all the cooperative's equity – except for equity derived from the cooperative's corporate members – be reclassified as debt. With such thin levels of equity, most of these cooperatives would find themselves – pursuant to their security instruments and/or loan contracts – at best, unable to issue additional secured debt and at worst, in technical default.

NRECA strongly believes that application of this provision would inhibit the transparency of an electric cooperative's financial statements. In the first place, while the cooperative's board may have in the past, routinely and without exception, granted early redemptions to decedent estates, for most cooperatives, there is no requirement to do so in the future. Indeed, for most cooperatives, to make any redemption of equity (i.e., to decedent estates or otherwise), the board of directors must determine that the cooperative – considering its liquidity, equity position, etc. – is financially able to do so. Hence, reclassifying an electric cooperative's allocated excess revenues to natural persons would overstate the cooperative's liabilities.

In the second place, application of this provision would detract from the comparability of cooperative financial statements vis-à-vis those of public investor-owned firms. (For public investor-owned firms, of course, there is no usually need for the firm to repurchase its stock at an owner's death because the stock can simply be sold in the stock markets.) Indeed, to most cooperatives, the liability treatment being prescribed seems an improper application of form over substance. As mentioned above, allocated excess revenues are in substance the cooperative's primary source of equity. To reclassify all such equity allocated to natural persons as a liability solely because the cooperative's board of directors has granted early redemptions to decedent estates in the past would inaccurately present the financial position of cooperatives as comparing poorly to that of public investor-owned firms.

If the Board does not act to exclude nonpublic companies, like electric cooperatives, from the scope of Statement No. 150, most cooperatives will likely be forced to cease their practice of providing early redemptions to decedent estates. The required liability treatment would simply be too detrimental to cooperatives' reported financial position. This unfortunate required change in cooperative policy would, of course, make the task of estate administrators and executors lengther and more difficult.

NRECA, therefore, respectfully urges the Board to exclude nonpublic companies from the scope of Statement No. 150.

If, on the other hand, the Board does not act to exclude nonpublic companies from the scope of Statement No. 150, NRECA respectfully urges the Board to grant an additional year for nonpublic companies to implement the accounting standard. Certain electric cooperatives will likely find it desirable to modify some of their bylaw provisions as a result of Statement No. 150. Because most cooperatives can only implement bylaw amendments by action of the cooperative membership at the annual meeting and many of this year's annual meetings have already taken place, more time beyond the end of this calendar year is needed to adopt desired bylaw changes.

NRECA sincerely appreciates the Board's consideration of its requests.

Very truly yours,

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cc: Ms. Suzanne Q. Bielstein, Director of Major Projects and Technical Activities, Financial Accounting Standards Board