



Associated Wholesale Grocers, Inc.

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May 30, 2008

Sent via Email to director@fasb.org

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116



LETTER OF COMMENT NO. 54

Re: File No. 1550-100, Comments to Preliminary Views on November 30, 2007 Financial Instruments with Characteristics of Equity (the "Preliminary Views")

Dear Sir or Madam:

Associated Wholesale Grocers, Inc. ("AWG") is a Kansas corporation operating as a cooperative under subchapter T of the Internal Revenue Code. AWG is the second largest privately-held grocery distributor in the United States. As a co-op, our company is wholly-owned by our members who purchase our products and services. Our equity capital structure involves a relatively nominal amount of Class A stock, which each member is required to purchase to do business with us, and a more significant amount of patronage certificates, which represents our members' share of our retained earnings. As a cooperative, we must allocate our patronage sourced earnings annually among our members based upon the volume or value of the business done by our members with us. These patronage certificates are subordinated to all creditors and effectively operate as perpetual capital, which AWG rotates by redeeming the oldest patronage certificates outstanding, in amounts and at times that AWG's financial condition permits such that there continues to exist an appropriate and proportionate allocation of invested capital among those doing business with the cooperative.

Our comments to the Preliminary Views set forth in this letter reflect our concerns with respect to the Basic Ownership Approach in general and our concerns with respect to the application of the Basic Ownership Approach as it relates to AWG and cooperatives as a whole.

You requested comments on the overriding question as to whether the Basic Ownership Approach would represent an improvement in financial reporting that would provide useful information to investors and other users of financial information. We applaud FASB for its efforts and believe that its mission in this area to help more fairly and simply present the financial conditions of companies with these types of instruments is worthwhile. However,

we believe that, although on a macro level the Basic Ownership Approach would be an improvement in some situations, the Basic Ownership Approach skews information in many situations and has no real impact or effect in other situations. Thus, as we will address more fully below, we believe the Basic Ownership Approach misses its mark and more work is needed in this area.

In arriving at our conclusion, we note that the Basic Ownership Approach does not deal with the longstanding dilemma that financial statements are prepared and used by a variety of different users with different objectives and agendas. We agree that separate statements for each type of user is not advisable or practical. We believe that, the more a "one-size fits all" approach is used (as we believe is the intended purpose with this approach), the more likely it may be to distort the financial condition of others that fail to fit within the classic pattern. With the goal of all financial statements to fairly present one's financial condition, the "fit" needs to be as precise (and as accommodating) as possible to achieve such a goal.

The Basic Ownership Approach would appear to prove quite helpful for an unsophisticated investor in common stock of an enterprise. However, the Basic Ownership Approach will not assist a sophisticated investor. In addition, it may be totally misleading for creditors, who are attempting to understand the real claims that may stand in front of them, as opposed to reflecting perpetual equity that a business enterprise has an opportunity to redeem when its financial circumstance so allow.

In our case, and that of many other co-ops, our investor/owners hold both a relatively nominal amount of stock and a more significant position in patronage certificates. Depending on the particular cooperative the patronage certificates may take a variety of forms, including, among others, common stock, scrip (which is generally an uncertificated equity instrument) and debt. In all cases, the patronage certificates reflect the members' equity investment in the cooperative, which were created by retaining a portion of the cooperative's earnings from the business done with its members. In order to be fair to all of its members (particularly its long-standing members), a cooperative needs to rotate out this capital and redeem the old patronage certificates so the current users of the cooperative continue to provide capital to the cooperative. In all cases, these patronage certificates are subordinate to the cooperative's third party creditors.

Due to the dual status of the cooperative members, whether the certificates are classified as liabilities or equity is not really relevant to its member-investors. In fact, as discussed below, it may potentially paint an unfair picture of their interest depending on the value assigned to such instruments if classified as a liability.

With respect to other users of the financial statements issued by AWG (or for that matter other cooperatives, generally), the Basic Ownership Approach would distort the financial condition. Under the Basis Ownership Approach, any "equity" instrument that does not act and feel like common stock is essentially treated as a liability. In a non-cooperative, the retained earnings are treated as equity, since the retained earnings ultimately go to the common stockholders. However, in the case of a cooperative, we are required to allocate our patronage earnings among our members based upon the business we do with each member. If not, we will not qualify as a cooperative for Federal income tax purposes, subjecting our income to double-level taxation. The simple fact that we have to allocate patronage among our members and that we rotate the patronage equity to insure that our most current users provide our patronage equity should not cause our retained earnings to be treated as debt when the retained earnings of all other corporations are treated as equity.

The most important user of the financial statements of a cooperative, such as AWG, is the cooperative's creditors, whether lenders or trade creditors. Even though our patronage certificates reflect our retained earnings, the Basic Ownership Approach may classify the patronage certificates as liabilities. This unfairly presents a cooperative's financial position. The patronage certificates are subordinate to the interests of all other parties holding rights constituting liabilities on the balance sheets of such companies. Such presentation suggests that the certificates are company obligations which are due and payable at a specified time. Instead, patronage equity may legally remain outstanding indefinitely (i.e., perpetual) and the cooperative simply has the right to redeem the patronage equity in the precise amount of the members' historic share of the cooperative's earnings to fairly treat its members by making sure the most current users fund the cooperative its necessary capital.

Of course, if the Basic Ownership Approach (or a similar approach) is adopted, a difficult and substantial issue exists as to how to value for purposes of determining the amount of the liability created by the patronage certificates, in cases like ours and that of other similar co-ops in which these instruments have no maturities. As these instruments have no maturity date and the company has no legal obligation to ever pay, we would surmise that such instruments should be valued as liabilities at a nominal value or possibly \$0. Treating such instruments with such a zero value might then allow for the fair presentation to a cooperative's creditors. However, by doing so, the Basic Ownership Approach's use would seem to create confusion in the creation of a zero value liability and a potential undefined residual equity element.

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Lastly, I think it is important to note that the application of this Basic Ownership Approach further disadvantages cooperative in relation to large public companies. Cooperatives typically operate on a one person-one vote system and have limitations on ownership, which necessitates the creation of other layers of equity. Since the focus of the Basic Ownership Approach is on the presentation to the common stockholder, the Basic Ownership Approach creates the distortions focused upon above. Public companies on the other hand have no such constraints. Accordingly, such companies will as a result of modification to your standards as suggested by the Preliminary Views have greater opportunities to obtain credit and will otherwise "appear" to have a "cleaner" balance sheet.

We urge the Board to make no further changes in this area and not adopt the Basic Ownership Approach as set forth in the Preliminary Views until the issues addressed in our letter are taken into account in any new standard, which at the minimum should include, as necessary, appropriate treatment for patronage certificates as equity. One possible change that we would propose to address certain perceived problems with the Basic Ownership Approach would be to create an exception to the "lowest level" prong of the ownership test to include levels just above the lowest level that are owned by the same basic group, whether in the same proportion or otherwise.

Thanks you for your consideration of our comments.

Very truly yours,

ASSOCIATED WHOLESALE GROCERS, INC.

A handwritten signature in black ink, appearing to read "Robert Z. Walker", with a long horizontal flourish extending to the right.

Robert Z. Walker
Executive Vice President and Chief Financial Officer