

September 10, 2010

Rick Anderson, Chair AICPA/FAF/NASBA Blue Ribbon Panel **Financial Accounting Standards Board** Norwalk, CT 06856

Dear Chairman Anderson:

The National Cooperative Business Association (NCBA) is a national association representing cooperatives in every sector of the economy. The cooperative sector holds more than \$1 trillion in assets, generates more than \$290 billion in revenues and employs a work force of 670,000.

We applaud the efforts of the Blue Ribbon panel to address the issue of private company reporting. We agree that the status quo is not working for private firms, especially small entities. As member owned businesses, cooperatives have some unique features that are not always addressed in the financial reporting standards. The standards sometimes are not aligned with the needs of our users and preparers and burdensome on the cooperatives, most of which are small companies.

We hope the Panel's proposal will lead to standards and a process that takes into account the interests and needs of cooperatives. Some of the concerns we have with current reporting requirements:

- Cooperatives have reported increasing costs over the past few years associated with audit services and staff time and resources for education and implementation of the changes. For some standards, cooperatives do not perceive any benefit from the increased costs. And, financial managers face a difficult task when they have to explain or justify increasing costs to members and boards without being able to articulate the corresponding benefits.
- Issues such as FIN 48 and fair value valuation would benefit from more research on their impact on private entities such as cooperatives that operate on an at-cost basis.
- We think an acknowledgment that in some cases, one standard is not appropriate for all may enhance the standard setting process, allowing for accommodations for different types of entities while maintaining effective standards.
- We have provided comments on the various approaches proposed by FASB/IASB to the classification of equity, which is a significant issue for cooperatives. Any standard must ensure that shares owned by/ownership interest of the members of a cooperative are classified as equity.
- With regard to business combinations, the standard does not accommodate the cooperative model. There is no identified acquirer and acquiree in a merger between cooperatives and there is no change in control as members, who are the owners, have the same voting power as before the

merger. There is typically no exchange of consideration and no exchange of member interests. The standard based on an acquirer and acquire simply does not meet the needs of cooperatives.

- O The pooling method has served cooperatives and users of cooperative financial statements well. There is little evidence that the pooling method as it applies to cooperatives has caused lack of comparability or problems for users. It is simple, produces consistent results and has not been found to be overly burdensome or costly for cooperatives. In addition, for many cooperatives the ultimate result of the acquisition method would be the same as pooling but involve much more cost.
- The numerous and possibly conflicting approaches to <u>fair value</u> that result from application of various valuation techniques present challenges for cooperatives and run counter to the goal of creating a consistent standard that enhances comparability. Because cooperatives generally are not publicly traded companies and there is no agreed upon valuation technique, the valuations would be as numerous and diverse as the accountants or firms providing them. Determining fair value can be a costly and burdensome process without any attendant benefits for cooperatives, most of which are small businesses.
- We believe that <u>differences in GAAP should be based on the needs of private company constituents</u>, including users of private company financial statements. Included within this concept should be consideration of differences in the financial structures of certain types of private companies such as cooperatives that operate on an at-cost basis where it can be shown that proposals may have a different and measurable impact on such entities.
- More effective <u>cost-benefit analyses</u> would help standard setters determine and understand the impact of the standards on private companies; cost-benefit considerations should be taken into account in determining whether changes are warranted. But the cost-benefit analyses should be based on some models or clearly delineated parameters to help guide the deliberation.

We appreciate that the Blue Ribbon Panel is looking at various alternatives to the status quo. Though an approach developed specifically for small or private companies may be appropriate, the international cooperative community does not embrace the SME standard. In general, the SME does not address the specific and distinct needs of the cooperative structure. And compliance with the SME proposal would require a knowledge and understanding of the full IFRS, providing little benefit to smaller entities that struggle to maintain the resources and staff to keep up with the changes to the financial statements. We understand and appreciate that the Panel has rejected the SME approach.

We look forward to the Panel's decisions and are available to help in its efforts to create a system that addresses the needs of private companies, including cooperatives.

Sincerely,

Paul Hazen

CEO