



National Cooperative Business Association

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NCBA Hails Deferral of Rule Reclassifying Co-op Member Equity as Debt; Decision Heads Off Chaos in Co-op Accounting

Washington, D.C.—The National Cooperative Business Association today applauded a decision by the standards-setting board for the accounting industry to defer indefinitely a rule that could have required co-ops to reclassify member equity as debt. The standard, issued by the Financial Accounting Standards Board, threatened to throw the balance sheets of thousands of financially healthy U.S. co-ops into the red.

“We sincerely appreciate the responsiveness of the Financial Accounting Standards Board, which clearly heard the pleas of dozens of cooperative businesses in recent days on its Financial Accounting Standard No. 150,” said Paul Hazen, president and CEO of NCBA, the membership association for all types of cooperative businesses.

Hazen said FASB’s decision, made this past Friday, heads off chaos in the finances of co-ops from coast to coast. “Had the rule gone forward,” he said, “it would have wreaked havoc on co-op balance sheets. Financially healthy enterprises would have suddenly appeared shaky or insolvent.”

Hazen added that FASB was right to act on the business equity question but that it had not adequately considered the consequences of the standard on the cooperative sector.

NCBA had asked FASB to delay implementing FAS 150 and had rallied support for a delay from co-ops around the country. As a result, approximately 70 percent of comments received by FASB on deferral of FAS 150 in recent days were from cooperative businesses.

Member Equity Often Accounts for All Co-op Equity

Cooperatives are unlike other businesses in that equity allocated to co-op members based on revenues generated over expenses often makes up the entirety of the business’s equity. A co-op’s board generally retains discretion on when and whether to redeem that equity to members as members leave the co-op, become inactive, or die.

Until now, this money has been shown on co-ops’ balance sheets as just what it is—equity, or ownership capital. FAS 150 could have required reclassification of all this

equity as mandatorily redeemable debt, even though there is no legal requirement for it to be paid back and it is **never** redeemed all at once.

On Friday, FASB “indefinitely deferred” the mandatory redemption provisions of FAS 150 as they affect co-ops and other nonpublic entities pending further consideration of implementation issues associated with the rule.

Hazen said NCBA and its members look forward to working with FASB to resolve the uncertainties associated with FAS 150 as they relate to cooperatives.

FASB is a private agency created by the accounting industry as its national regulatory agency. Its rulings, while not binding, in practice become the official operating standards for the accounting industry.

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Located in Washington, the National Cooperative Business Association represents cooperatives across all sectors of the economy, including agriculture, food retailing, childcare, credit unions, housing, healthcare, energy, and telecommunications. There are more than 40,000 cooperatives in the United States and 120 million cooperative members.