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Director, TA&I-FSP
Financial Accounting Standards Board
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Proposed FASB Staff Positions – FSP FIN 46-f

Cardinal Health appreciates the opportunity to comment on the proposed FASB Staff Positions 46-f, *Evaluating Whether as a Group the Holders of the Equity Investment at Risk Lack the Direct or Indirect Ability to Make Decisions about an Entity's Activities through Voting Rights or Similar Rights under FASB Interpretation No. 46, Consolidation of Variable Interest Entities* ("FSP"). Please refer to our comment letter dated November 24, 2003 related to the *Exposure Draft- Proposed Interpretation to Modify FASB Interpretation No. 46, Consolidation of Variable Interest Entities*, where we detail our numerous concerns with the guidance of Interpretation No. 46 ("FIN 46") as we will not reiterate those concerns in this comment letter.

In regard to this FSP, there is a fact pattern that manifests itself in the exhibit that we would like to see clarified. The staff makes the statement that they believe the FASB did not intend for all franchise arrangements to be variable interest entities ("VIE") and goes on to state that typical franchise agreements have provisions to protect the brand that would not be considered the same as the ability to make decisions impacting the success of the franchise. As such, our understanding of the proposed guidance would lead one to conclude that a franchise relationship where the entity has sufficient equity at risk, pursuant to FIN 46 paragraph 5a, and a franchise agreement that only contains terms and conditions similar to those outlined in the exhibit would not be a VIE. The exhibit then proceeds to address a situation where the franchisor provides financial support. In the related discussion it is assumed that the financial support would come with additional decision making ability ascribing to the franchisor. If no additional decision making ability was provided to the franchisor it would appear that this additional financial support would not result in the entity being a VIE. However, if the loan required a guarantee from the franchisee (equity holder) we would then evaluate this to equate to additional subordinated support from the equity holder, which the Board is proposing as a situation that would cause the entity to be viewed as a VIE under paragraph 5a. It is typical for lenders to obtain as much collateral as possible when making loans. This concept is acknowledged by the Board in paragraph C21 of FIN 46. Therefore, we fail to understand why a guarantee from the franchisee would force the entity into VIE status. No additional decision making authority has been granted to the franchisor and it is obvious that the franchisee would be the party absorbing the majority of the risks, yet the proposed rules would force the franchisee and the lender to consider the complex VIE calculations. We question whether it is really the intent of the Board to have the decision come down to the entity being considered a VIE due to a guarantee from the equity holder even though no additional decision making authority has been granted to the franchisor. The economics of this situation is that the guarantee further insulates the franchisor from the economic variability of the entity but the rules would appear to force the entity into VIE status. This appears to be an illogical conclusion brought about by the rules. We would appreciate the staff providing additional guidance on these issues.

Similarly, it is our belief, based on reading the proposed rules, that the conversion of past due receivables from a franchisee into a note would not be a reconsideration event under the troubled debt restructuring guidance. However, if a guarantee were then required from the franchisee to secure the note, it would appear that this would require reconsideration because the equity holder has added additional subordinated support. Nothing has changed in the economics from the lender's perspective yet it would appear that this set of circumstances would require the entity to be treated as a VIE. Once again, we believe that this appears to be an illogical conclusion brought about by the rules. We urge the staff to reconsider the impact of additional support provided by the equity holders in these types of situations.

We would be pleased to discuss any of these specific concerns with you, the Board members or other staff, at your convenience.

Very truly yours,

Bryan Focht
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Cardinal Health, Inc