

November 10, 2003

The Financial Accounting Standards Board
The Financial Accounting Foundation
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116.

Attention: TA & I Director
File Reference Number: 1082-300



Letter of Comment No: 2
File Reference: 1082-300
Date Received: 11/10/03

Dear Director and Members of the Board:

We have recently learned of your deliberation of FASB Interpretation 46 (FIN 46 - *Consolidation of Variable Interest Entities*.) The purpose for such a proposal may be well intended – however, a review of the latest exposure draft of the proposed interpretation on December 15, 2003, raises several serious concerns. At the top of the list is “Why are franchising organizations considered ‘Variable Interest Entities’?”

As chief executive officer of RE/MAX International, one of the largest real estate franchisors in the world, I would appreciate your consideration of the devastating effect such an interpretation would have on the franchising industry. Each of the franchises in our network is independently owned and operated, utilizing selected methods of business accounting and internal controls appropriate for their individual circumstance. Further, because RE/MAX franchises operate in some 46 countries, a large variety of accounting practices, standards and rules may apply.

Our interpretation of the proposed FIN 46 is that a VIE (including franchisors) could be required to consolidate the financial statements of its franchisees... “in an effort to promote more transparency in corporate structures and financial transactions involving variable interest entities (VIE’s).”

Our independently owned franchisees should never be required to use the same outside auditor, adhere to accounting principles dictated by the franchisor, required to provide internal control reports to the franchisor, or adhere to internal control dictates. The belief that the more than 4,600 franchisees in our system could adopt and convert to a “standardized” accounting system is unrealistic. These costly hardships, if enacted, would certainly be borne initially by franchisees, but eventually by consumers.

Such requirements would deny these “small business” operators the ability to own and operate their businesses as entrepreneurs. In many cases, the cost of an annual audit alone on an individual franchise would significantly deplete, if not surpass any potential profits for all concerned. Any such requirements would place an unnecessary financial burden not only on these small businesses but also on the franchisor. We do not consider any of our franchisees to be a variable interest entity contemplated by the spirit of FIN 46.

Your efforts to improve the quality of VIE financial reporting may be well grounded and with good intentions and we support the concept. However, this latest FIN 46 draft will not, in any manner, improve financial reporting by the RE/MAX franchise network, and probably not that of any other franchise system. Rather it would place unnecessary burdens on those who already struggle to turn a profit. Additionally, it serves no purpose in identifying the true economic reality of the franchise business.

I understand that the International Franchise Association has made several recommended changes to the proposed interpretation of FIN 46, including certain exemptions for franchisors. Certainly, in the case of RE/MAX International, it is our opinion that our independently owned and operated franchisees should not qualify as “variable interest entities,” and request you review individually, all franchisors for any such qualification.

Respectfully,

A handwritten signature in black ink, appearing to read "Daryl Jespersen".

Daryl Jespersen
Chief Executive Officer

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