

**LOBLAW COMPANIES LIMITED**

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**Letter of Comment No: 9**  
**File Reference: FSPFIN46-F**

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Director, TA&I—FSP  
Financial Accounting Standards Board  
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Subject: Proposed FASB Staff Position  
No. FIN 46-f

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Dear Sir:

We appreciate the opportunity to comment on the proposed FASB Staff Position FIN 46 (f) with respect to paragraph 5(b)(i) of FASB Interpretation 46 "Consolidation of Variable Interest Entities". Guidance on the process of evaluating if an equity group lacks the direct or indirect ability to make decisions about an entity's activities is welcomed given the degree of subjectivity necessary in this type of analysis. Although we are an enterprise subject to the guidance of the Canadian Institute of Chartered Accountants we understand the necessity to arrive at harmonized global accounting standards and the important role played by the FASB in this context.

Clarification with respect to decision making ability in the context of franchise arrangements is necessary in order to achieve consistent application amongst reporting issuers. We support the distinction made by the FASB staff between the ability to make decisions which impact the success of the franchise business and the ability to make decisions to protect the franchisor's brand. Franchise agreements usually contain clauses which not only allow the franchisor to protect and maintain the value of the brand developed by the franchisor but also permit the franchisor to achieve a consistent offering to its customer base. This is usually achieved through, for example, the right to require consistent store retail equipment and signage as well as the right to approve product offerings. Consistent with FASB's position, we are of the opinion that these type of franchisor rights do not limit the franchisee's ability to make decisions which impact the success of the franchise itself but are decisions that contribute to the ultimate success of the brand. The success of a franchise in the retail sector is dependent on the day to day involvement and the commitment of the franchisee. Staffing, community involvement, customer relations, ensuring product in stock and general appearance of the retail store remain decisions of the franchisee and ultimately are the drivers of a successful business.

On the same basis, in our opinion, clarification with respect to paragraph 16 (d) on de facto agents as it applies to franchise arrangements should be addressed to ensure a consistent interpretation. Under this paragraph, it is possible that the franchisor might conclude that it and the franchisee are related parties and that the franchisor may

therefore be considered the primary beneficiary. The franchisor's right to the prior approval of any sale or transfer of the franchise business ensures the protection of franchisor's brand. We therefore are of the opinion that this would not result in a constraint on the franchisee's ability to successfully manage the business and should not necessarily be interpreted to result in a de facto agency relationship in the context of franchise arrangements. We respectfully submit that the FASB staff should also issue an interpretation with respect to this paragraph as it relates to these conditions consistent with the interpretation proposed in FIN 46(f).

If you wish to discuss these comments further, please contact me at 514-383-3164.

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