



The Franchise Company

5397 Eglinton Avenue West
Suite 108
Etobicoke, Ontario
M9C 5K6

VIA EMAIL TO director@fasb.org

Tel: 416-620-4700
Fax: 416-620-9955

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Director of Technical Application and Implementation Activities
File Reference Number 1082-300
Financial Accounting Standards Board
401 Merritt 7
Box 5116
Norwalk, CT 06856-5116

Letter of Comment No: 42
File Reference: 1082-300
Date Received: 11/10/03

Dear Sir/Madam,

Re: Applicability of FASB Interpretation No. 46 - Consolidation of Variable Interest Entities ("FIN 46") to franchise relationships

I am writing this from two different vantage points within our company.

The first is as a franchisor. Our Company is the franchise arm of a public company. Through our various platforms that include California Closets, Paul Davis Restoration, Pillar to Post Home Inspection, College Pro Painters and Certa ProPainters, we have over 1700 franchisees operating throughout the United States and Canada. Collectively they would employ in excess of 15,000 people. The impact of FIN 46 on our organization and any other franchise organization would be devastating. The logistics and cost of trying to obtain timely and accurate financial results from an independent business person who by way of their franchise agreement is not contractually obligated to submit such information are staggering. Most are small business entrepreneurs with sales less than \$1 million. Let me reiterate, there is no legal obligation for our franchisees to report monthly financial data to a franchisor.

The second is a perspective as a franchisee. Each franchise has different levels of reporting systems and staff. To ask each franchise in our system and in many systems to incur the cost to hire staff and implement systems to ensure that integrity would provide a severe financial hardship as well as detract from the time they have to do what they do best, that is run their business. The bureaucracy involved would be incredible.

While we fully support FASB's efforts to improve the quality of financial reporting regarding variable interest entities we feel that FIN 46 should be inapplicable to franchise relationships. If I can be of further assistance in explaining our position, please do not hesitate to call me at 416-620-9933.

Yours truly,

/s/ Paul Clements

Paul Clements
CFO
The Franchise Company