

International Franchise Association

October 7, 2003

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

Dear Director, TA&I -FSP,

The International Franchise Association, the oldest and largest association representing the entire franchise community, appreciates the opportunity to comment on FASB Staff Position 46-e. As we have previously indicated in a letter to FASB dated September 11, the potential economic impact of FIN 46 is significant in light of the size and scope of the franchise business community. More than 75 different industries including restaurants, real estate, residential cleaning, auto (dealers and repair), and hotels use franchising as a method of providing goods and services. There are an estimated 1,500 franchisors operating in the U.S. doing business with franchisees in more than 320,000 retail units. The franchise sector contributes more than \$1 trillion dollars to the U.S. economy annually.

Our members support the deferral for applying the provisions of FIN 46 until the first interim or annual period ending after December 15, 2003 (or December 31, 2003 for an entity with calendar year-end quarters). However, as to franchisor-franchisee relationships, we believe that the deferral of the application of FIN 46 should apply equally to post February, 2003 relationships. We also believe it to be an unreasonable burden to require extensive discovery and disclosure for a company to avail itself of the deferral and urge FASB to withdraw that aspect of its proposal and replace it with a simple cautionary statement that as permitted under FSP 46-e, the company has elected to defer the possible application of FIN 46 to its franchise relationships while it determines which, if any, of its franchise relationships may be subject to consolidation of financial statements under that new FASB interpretation.

An intended purpose of FIN 46 is to ensure meaningful and accurate financial reporting to investors, the markets, and regulators. The nature and extent of the information sought to be disclosed in connection with the deferral, in our opinion, will result in the publication of confusing and perhaps misleading information. To include numeric information in the narrative is begging for corrective information when the numeric data turns out to be incorrect. For example, reference to the number of entities to which application of FIN 46 is being delayed and the reasons for the delay could result in a franchisor, seeking to be conservative, initially referencing thousands of franchisees. Ultimately, perhaps none will be subject to consolidation under FIN 46. Similarly, a statement on the reason for the deferral being the unavailability of financial information upon which to make a FIN 46 determination gives an impression of negligence. Quantifying loss potential and business activity do not help the reader of the financial statements understand the franchisor-franchisee relationship any better. Because there is a strong likelihood that FIN 46 will not apply to many franchisor-franchisee relationships,

extensive disclosure along the lines of that proposed in FSP 46-e will carry only a negative connotation, not meaningful and material information.

We renew our request for a meeting at which our representatives can discuss with FASB alternative solutions that will not result in distorted financial statements and information for franchise companies.

Thank you.

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