

EXECUTIVE COMMITTEE

Kenneth D. Walker, CFE Driven Brands, Inc. Chairman

John "Jack" Earle Earle Enterprises LP 1st Vice Chairman

Jon Luther Dunkin' Brands 2nd Vice Chairman

Steve Romanie Io, CFE FOCUS Brands Secretary

Dina Dwyer-Owens, CFE The Dwyer Group Immediate Past Chairwoman

Steven J. Greenbaum, CFE PostNet Intl. Franchise Corp. Past Chairman

Harry Loyle, CFE ComForcare Senior Services of Dayton, OH Treasurer

Barry Miller
Sylvan Learning Center
of Girard, OH
Chairman, Franchisee Forum

Stephen P. Joyce Choice Hotels International Chairman, Franchisor Forum

Dawn Kane Hot Dish Advertising Chairwoman, Supplier Forum

BOARD OF DIRECTORS

Bill Anderson, CFE UPS Store of Philadelphia, PA

Ken Bartell ServiceMaster Commercial Cleaning 1st Vice Chair Franchisee Forum

Melanie Bergeron, CFE Two Men And A Truck Intl., Inc.

Joseph H. Bourdow, CFE Valpak Direct Marketing Systems, Inc.

Liam Brown Marriott International, Inc.

Rocco Fioren ino, CFE Swiss Farm Stores

Lane Fisher, CFE FisherZucker LLC

John Francis
PostNet of NN & WI

Philip Friedman, CFE McAllster's Corporation

William Hall, CFE William G. Hall & Co.

Scott Haner, CFE Yurn! Brands, Inc.

Darrell Johnson, CFE FRANdata Corporation

Asiam Khan Falcon Holdings, LLC

r arcon rioldings, ELO

John Kujawa McDonald's Corporation

Stuart Mathis MBE, A UPS Company

Eric McCarthey
The Coca-Cola Company

Margaret McEntire Candy Bouquet International, Inc.

Catherine Monson FASTSIGNS International

Barbara Moran Moran Industries, Inc.

Pete Popovich
PepsiCo Foodservice

Scott Pressly, CFE Van Ness Capital Advisors 1st Vice Chair, Supplier Forum

Ann M. Rosenberg, CFE D'Vine Wine

Keith Singletary Chick-fil-A Capital Centre

Shelly Sun, CFE BrightStar Franchising, LLC

Larry Tate Golden Corral Buffet & Grill

EX-OFFICIO Stephen J. Caldeira International Franchise Association President and CEO







September 16, 2010

Mr. Russell G. Golden
Technical Director
Financial Accounting Standards Board
Norwalk, CT 06856-5116

Re: File Reference No. 1840-100, Proposed Accounting Standards Update, "Disclosure

of Certain Loss Contingencies"

Dear Mr. Golden:

I am writing on behalf of the members of the International Franchise Association to comment on FASB's Proposed Accounting Standards Update, Disclosure of Certain Loss Contingencies. While the IFA strongly supports transparency in financial reporting, we are concerned that the proposal will harm investors with misleading and subjective information relating to loss contingencies. We are also concerned that the proposal exposes companies and investors to greater risk of loss by providing plaintiffs with critical insights into these companies' legal strategies that will yield them a clear advantage during litigation. We kindly ask FASB to take the following concerns into consideration.

As the largest and oldest franchising trade group, the IFA's mission is to safeguard the business environment for franchising worldwide. IFA represents more than 85 industries, including more than 11,000 franchisee, 1,200 franchisor and 600 supplier members nationwide. According to a 2008 study conducted by PricewaterhouseCoopers, there are more than 900,000 franchised establishments in the U.S. that are responsible for creating 21 million American jobs and generating \$2.3 trillion in economic output.

Common Issues in Franchising Litigation

Franchising is a method of doing business, and franchise offerings have been specifically regulated by the Federal Trade Commission and the states for more than thirty years. These regulations involve extensive investor disclosure requirements.

Franchised businesses operate in more than a hundred different sectors of the U.S. economy. One of the hallmarks of franchising is the relationship between franchisor and franchisee where a franchisor owns the trademarks and the intellectual property of a brand and licenses the rights to operate this brand-name business to a franchisee. The advantage to this method of doing business is that a franchisor can create a national brand without committing to the scale of capital investment that would be necessary to build a network of corporate-owned units. However, claims against a franchisee by a consumer or by the franchisee's employee are often expanded to include the franchisor as a defendant (because the franchisee uses the franchisor's brand and the franchisor has some control over the franchisee, plaintiffs often claim that the franchisor is responsible for the

Page Two Letter to Russell Golden September 16, 2010

franchisee's conduct). Although decades of case law has generally established the limits of vicarious liability in franchising, it does not stop plaintiffs' attorneys from filing these cases in the hopes of a settlement. Many of these lawsuits are without merit and are dismissed quickly, and they rarely have a material impact on a company's financial position. We are concerned that the proposal will require franchisors to provide loss contingencies for this kind of litigation even though these cases are rarely allowed to proceed.

Similarly, another form of litigation common in franchising involves contractual disputes between franchisors and franchisees. While this kind of litigation may be more material than the vicarious liability cases discussed above, it can also be simply a means of improving a negotiating position in issues involving the franchise agreement or system standards. A large number of franchisor/franchisee cases never proceed beyond the early stages. Unfortunately, the proposal does not provide for a distinction between these common nuisance lawsuits and more significant litigation. In our view, it would be an enormous burden for franchisors to report these lawsuits on financial statements without improving the material quality of financial reporting. Moreover, this proposal would create a distorted picture of the real financial position of a franchise company, particularly for small and mid-sized franchisors.

Finally, we should note that franchisors are required to report most litigation to potential investors under the Federal Trade Commission's Franchise Rule. The required information includes most pending and concluded litigation, but the nature of the information required in the FASB proposal is very different and will create unnecessary and complex burdens for franchise companies.

In addition, we note that the proposal will not improve transparency and comparability. Rather, by requiring franchise companies to account for pending litigation on financial statements, it will inject much more subjectivity and uncertainty into the financial statements. We ask FASB to concentrate the final rule solely on extraordinary and material claims.

Prejudicial Impact on Franchisors during Litigation

Our members carefully protect information that could be prejudicial to a case, as any prudent party to a lawsuit would do. As more detailed information about loss contingencies is required, more information will be provided to plaintiffs' attorneys. Disclosing the reserve amount or the accrual puts companies at a huge disadvantage in settling a claim. In settlement negotiations, plantiffs' attorneys may be able to glean from financial statements enough specific data to provide a roadmap for guiding their demands. Since, auditors will inevitably require more conservative estimates of loss, the proposal will unwittingly drive up the cost of litigation instead of promoting the goal of investor transparency.

Page Three Letter to Russell Golden September 16, 2010

Timing

The proposal is effective for fiscal years ending after December 15, 2010. This is an unusually short window of time to comply with a new standard, and we respectfully ask that compliance be delayed at least one year. Moreover, most franchise companies operate on a calendar year basis. For purposes of complying with state and federal disclosure requirements, most franchise companies conduct financial audits in the first quarter of the calendar year. In addition, these companies also prepare and file disclosure documents during the same period. Bringing this proposal into force by December, 2010 will create significant uncertainty for franchisors during the period of time when auditors and legal departments are most burdened with complying with their annual disclosure obligations. In addition, it is also worth noting that this proposal does not conform to international standards on loss contingency disclosures, which will be released by the International Accounting Standards Board in 2011. Since the U.S. is working toward international convergence, we strongly encourage FASB to wait for the international standard to be released so that the rules can be aligned.

Conclusion

Thank you for your consideration of these concerns.

Sincerely,

David French

Sr. Vice President, Government Relations

and Public Policy