

Stacey Sutay

Letter of Comment No: 64
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From: Barbara Carper [bcarper@brs-seattle.com]
Sent: Sunday, November 30, 2003 12:49 PM
To: Director - FASB
Cc: johnr@franchise.org; johng@franchise.org; lefever@brs-seattle.com
Subject: File Reference No. 1082-300

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Exposure Draft for Proposed Interpretation for FASB Interpretation No. 46 Consolidation of Variable Interest Entities

I am writing to express my concern over the possible implications of FIN 46 to entities engaged in franchising. I have reviewed FIN 46 and the above referenced proposed interpretation extensively and it is not clear to me whether a franchisor would be considered primary beneficiary of a variable interest entity with regard to its franchisees. I request that any interpretations issued indicate that the franchisor's interest in the fixed rate royalty fee it receives in connection with a franchise agreement would not in itself indicate a variable interest. I believe this modification accurately reflects the intent of the FASB and clarifying the intention as such would assist the approximately 1,500 franchisors operating in the US to properly apply the standard.

It appears that a variable interest is not created because the franchisor's royalty is based on franchisee revenues, not on net assets as is prescribed in FIN 46. If I have misapplied FIN 46 and it is the FASB's intention to create a relationship of primary beneficiary and variable interest entity between franchisors and franchisees, I respectfully request the opportunity to provide additional details supporting the reasons why consolidation would result in substantially misleading results.

I am a CPA licensed in Washington State. While I practiced traditional public accounting for approximately ten years, I no longer perform traditional accounting services. Instead, my work consists of measuring the financial results of franchise systems and other business networks and authoring benchmarking studies. To do this, I obtain financial statement information from franchisees, and compile the information to identify the drivers of profitability within the network. As such, I have a great deal of experience consolidating results of franchisees and can speak expertly as to the typical results of such consolidations, and the specific reasons why such consolidation would be misleading to the users of financial statements. Please consider me an important resource for the profession in the event that your intention is to require consolidation of franchise systems.

Respectfully submitted,

Barbara Carper, CPA