



October 7, 2003

Director, TA&I-FSP
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

RE: Proposed FASB Staff Positions FIN 46-e

We appreciate the opportunity to provide comments on the above referenced proposed FASB Staff Position. We support the deferral of the effective date for applying the provisions of Interpretation 46 (FIN 46) to interests held by a public entity in certain potential variable interest entities (VIE) as defined in the proposal. However, we strongly believe this deferral period should be extended until all significant issues related to FIN 46 are fully vetted and clarified. This proposed deferral period is not long enough given some of the issues and confusion involved in evaluating and applying the broad requirements of FIN 46 to these certain potential variable interest entities, particularly issues related to franchising companies and the application of paragraph 5b.

We are concerned about the potential broad application of FIN 46, specifically paragraph 5b, to McDonald's conventional franchising arrangements. We do not believe the McDonald's franchise agreement removes or significantly limits the decision making ability of a franchisee, thereby creating a variable interest entity under paragraph 5b. However, a broad and theoretical interpretation of FIN 46 could yield that conclusion. We believe the FASB should provide additional guidance as to the types of arrangements that significantly limit decision-making ability before companies can adequately analyze the impact of FIN 46. Specifically, what types of arrangements would be "protective" in nature versus "participating" as those terms are used in EITF 96-16

If there are situations where, by design, a franchisee has no or limited equity in the business and the franchisor has significant financial risk or reward from the operation of the business, we believe it is proper to apply the provisions of paragraph 5a of FIN 46 to those arrangements. This is not the case under McDonald's franchise arrangements as described below.

The following comments provide details on how franchising works at McDonald's and highlights some of the key provisions of our franchise agreement that supports our beliefs relating to the application of FIN 46 to McDonald's conventional franchise arrangements.

McDonald's Franchise Arrangements

McDonald's locates, develops and constructs a restaurant based on development plans and then controls the real estate it has developed either through ownership or a long-term lease. The franchisee is completely responsible for the investment in the kitchen equipment, lighting, signage, seating, décor and landscaping. The equipment must meet certain specifications. Franchisees must use recipes and specifications for menu items, certain methods of operation, trademarks and service marks, and concepts for restaurant design, signage, and equipment layout. The franchisee must also operate the franchise according to certain McDonald's minimum standards. The franchise agreement allows the franchisee to operate the specific restaurant for a specified term, generally a 20-year period, assuming they meet or exceed the minimum standards.

The standards and obligations contained in the McDonald's franchise agreement are essential to the protection of our highly recognized brand. The franchise requirements are intended to be protective of the brand and are not, by design or in practice, intended to cause the franchisee to lack the direct or indirect ability to make decisions about the franchise entity pursuant to paragraph 5b. The franchisees choose to enter into the agreement and put their equity at risk, and they control all day-to-day operations and decisions of the business. There is nothing contractually that protects them from incurring a total loss of their equity investment, and they also have the sole rights to the residual returns of the business.

Franchisees enter the business through the opening of new restaurants or acquisition of existing McDonald's restaurant businesses from existing franchisees. The franchisee financial requirements include an initial down payment that can range from 25% to 40% of the total cost of entering the business. The down payment must come from non-borrowed personal resources, while the balance of the investment may be financed from traditional sources. This equity requirement supports the financial health of the business and allows for acceptable cash flow after debt service for the franchisee. The equity requirement permits the franchisee to finance their activities without additional subordinated financial support. The Company does not provide financing to franchisees.

During the term of the franchise agreement, the franchisee pays the Company rent and a service fee based upon the restaurant's sales. The franchisee purchases all equipment, products, supplies and services from independent third party suppliers. The franchisee is responsible for all maintenance and repair of the equipment and the building, including compliance with minimum standards.

At any time, the franchisee can sell the McDonald's business, however, the new franchisee must meet the Company's qualification requirements. In addition, the franchisee negotiates the selling price with the potential buyer. The Company cannot arbitrarily withhold approval of the sale if the new qualified franchisee meets the financial equity requirements. Accordingly, this does not unfairly limit the franchisee's ability to obtain fair market value for the equity he has built up in the business.

Significant decisions that are made by the franchisee in the ordinary course of business, including the following, are essential to the success or failure of the franchisee's business:

- · Staffing, training, compensation of management and crew
- · Execution of the franchise concept
- · Pricing, promotion, local store marketing
- · Community involvement
- · Purchasing, inventory control
- Financial decisions including budgeting and capital expenditures

The accounting guidance in EITF 96-16 indicates that determining whether rights are protective or participating is a matter of judgment that depends on the facts and circumstances; however, the guidance specifically mentions two substantive participating rights – selecting, terminating and setting compensation of management and establishing operating and capital decisions including budgets in the ordinary course of business. In the McDonald's system, the franchisee has the sole authority to select, terminate and set compensation of management responsible for implementing the restaurant's policies and procedures and also has the sole authority to set operating and capital budgets. By entering into a franchise agreement with the Company instead of another franchisor, the franchisees are also making independent decisions regarding the menu, operating system and physical plant which they determine will lead to the best return on their investment.

As a result of the franchisee financial requirements discussed above, along with the franchisee being the key decision-maker, we strongly believe the franchising entity is not subject to consolidation as a result of the provisions of paragraph 5b of FIN 46. However, to eliminate any uncertainty, we believe the FASB should clarify paragraph 5b of FIN 46 as it relates to conventional franchise arrangements where the franchise agreement provides protective rights of the brand to the franchisor to ensure these arrangements are not subject to consolidation under this provision.

Financial Statement Impact

The accounting for our conventional franchise arrangements results in McDonald's reflecting on its balance sheet, its investment in the real estate and building assets that are leased to the franchisee. We recognize the fees and rents associated with the franchise agreement in our income statement in the period earned along with the related expenses. The franchisees, as owners of the restaurant franchise, recognize their investment in equipment, signs, seating, etc. on their balance sheet. They also recognize the net operating results of their restaurant business, net of fees and rents to McDonald's, in their income statement. This accounting reflects the investments, rights, risks and obligations under the franchise agreement of the respective parties. A complete consolidation of the franchise restaurant operations under our conventional arrangement, including a significant "minority interest" adjustment in both the balance sheet and income statement, would provide a confusing and distorted picture for investors of McDonald's Corporation's true operating results, financial position, and cash flows associated with this business arrangement.

Disclosures

We would support some limited form of disclosure during the deferral period for certain potential variable interest entities. However, we do not believe that the disclosure requirements in the deferral period as outlined in the proposal are meaningful for conventional franchising arrangements in light of the open issues surrounding the application of paragraph 5b. In addition, gathering and/or developing this information for McDonald's would be extremely difficult, if not impossible, with no contractual right to receive GAAP financial statements for over 5,000 franchisees operating over 18,000 McDonald's restaurants around the world.

McDonald's appreciates the opportunity to express our opinion on this matter. We strongly believe the issues we have discussed are important ones that deserve due consideration by the FASB. If you have any questions on this letter, please call me at (630) 623-3162.

Sincerely,

/s/ David M. Pojman

David M. Pojman McDonald's Corporation Senior Vice President and Controller