

October 1, 2012

Technical Director Financial Accounting Standards Board 401 Merritt 7 PO Box 5116 Norwalk, CT 06856-5116

Re: Proposed Accounting Standards Update of Topic 825, Financial Instruments (File Reference No. 2012-200)

McDonald's Corporation appreciates the opportunity to comment on the exposure draft of the proposed Accounting Standards Update, "Disclosures about Liquidity Risk and Interest Rate Risk" of Topic 825 – Financial Instruments (File Reference No. 2012-200).

Below, please find a selection of questions for respondents accompanied by our responses.

Question 2: For an entity that is not a financial institution, the proposed amendments would require a cash flow obligations table that includes the expected maturities of an entity's obligations. Do you foresee any significant operational concerns or constraints in complying with this requirement? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?

McDonald's believes the cash flow obligations table introduces significant operational concerns and constraints. We are also concerned with adding forward looking disclosures in the footnotes and the associated risks ("safe harbor" legal protections are not available for footnote disclosure).

We recognize that public entities may be required to disclose commitments and contingencies in Management's Discussion and Analysis (MD&A) section of their Securities and Exchange Commission (SEC) Form 10-K filings, per SEC Regulation S-K item 303(a)(5). The SEC regulation is an annual requirement, allowing large accelerated filers 60 days to complete their filings, but the Financial Accounting Standards Board (FASB)'s exposure draft would extend the cash flow obligations table to interim reporting, when accelerated filers have only 40 days to complete their filings. Preparers, such as McDonald's, have been able to meet annual reporting requirements, despite manual processes, but these same entities may find interim reporting much more difficult due to the shorter timeframe allowed.

McDonald's recommends limiting required disclosures to annual reporting for entities that are not <u>financial institutions</u>, unless there is a significant event or material change in expectations that would dictate interim disclosure.

Several of the proposed disclosures involve unrecognized balances, such as commitments or purchase obligations. McDonald's and many other preparers are challenged by reporting unrecognized balances since we cannot readily use existing accounting records, such as a general ledger. Often this requires



manual or ad-hoc reporting processes until more formalized methods can be implemented. We and other entities facing financial systems/software limitations may require considerable lead-time before modifications can be introduced.

Also, the implementation of new disclosures must allow for sufficient time to train all involved parties on the revised requirements. Since many of the cash flow obligations are unrecognized, the best source of information may reside outside the accounting function, in groups such as supply chain, marketing, and real estate development. These groups are not familiar with financial reporting requirements and in the case of large multinational companies with decentralized functions, such as McDonald's, it will require a significant commitment of time and resources to provide the necessary training, implementation assistance, and ongoing support.

McDonald's recommends condensing the number of periods to be presented in the cash flow obligation table. In particular, the proposed requirement in ASC 825-10-50-23G.a to disclose separately for the next four fiscal quarters seems highly prescriptive and unnecessary. This may provide useful information for entities in certain limited situations, but it does not seem well suited as a general requirement for all preparers. Further, while some preparers may already have accounts classified by annual periods, few are likely to have quarterly accounts already established.

To alleviate the challenges described above in quantifying cash flow obligations, particularly for unrecognized balances, McDonald's recommends allowing preparers to disclose qualitative analyses of cash flow obligations, rather than prescribing quantification for certain categories such as purchase obligations. For example, the following description may fulfill financial reporting objectives: "purchase obligations are expected to be similar to prior periods with modest increases attributable to sales growth and increases in commodity prices." For other categories, such as long-term debt maturities, the quantified information is more readily available and does not pose a significant burden to prepare, but is already disclosed in the footnotes.

Question 4: The proposed amendments would require a quantitative disclosure of an entity's available liquid funds, as discussed in paragraphs 825-10-50-23S through 50-23V. Do you foresee any significant operational concerns or constraints in complying with this requirement? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?

With respect to ASC 825-10-50-23U, we believe the requirement calling for a narrative discussion about the effect of regulatory, tax, legal, repatriation, and other conditions that could limit the transferability of funds among entities is feasible; however, we recommend against requiring quantification of transferability limitations. Some multinational entities, including McDonald's, may have funds in numerous jurisdictions, each with different conditions affecting the transferability of funds. To quantify all of the factors, or even a majority of factors, would likely require such an expansive disclosure that it would be difficult to justify from a cost/benefit perspective. These factors may also change over time. For example, it may be possible to repatriate funds in one period without incurring incremental income tax expense and/or cash tax payments, but the same transaction in a different period could result in a very different outcome. Further, the proposed guidance in paragraph 23U to quantify the limitations appears to conflict with ASC 740-30-50-2.c, which addresses undistributed earnings of subsidiaries and corporate joint ventures and requires disclosure of:



The amount of the unrecognized deferred tax liability for temporary differences related to investments in foreign subsidiaries and foreign corporate joint ventures that are essentially permanent in duration if determination of that liability is practicable or a statement that determination is not practicable.

McDonald's recommends that if the quantification requirement is retained that <u>an</u> <u>impracticability exception be added to ASC 825-10-50-23U</u> to maintain consistency with ASC Topic 740.

Question 6: As a preparer, do you feel that the proposed amendments would provide sufficient information for users of your financial statements to develop an understanding of your entity's exposure to liquidity risk? If not, what other information would better achieve this objective?

McDonald's is concerned that aspects of the prescriptive proposed amendments would not enhance financial statement users' understanding of the company's liquidity risk. We believe that a qualitative analysis relative to prior period cash flows may be more useful to financial statement users. This is more aligned with the SEC's liquidity guidance found in Regulation S-K Item 303(a)(1) that states: "identify any known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the registrant's liquidity increasing or decreasing in any material way." Under the SEC's existing guidance, a consistent level of purchase obligations may not warrant disclosure.

McDonald's has ready access to the capital markets, as evidenced by our status as a well-known seasoned issuer as defined by the SEC. This is further demonstrated by investment grade credit ratings from the recognized ratings agencies, as well as credit default swap spreads suggestive of market confidence. The sources of liquidity presented in the proposal are primarily limited to a subset of recognized financial assets and unused lines of credit; however, this only represents a small portion of McDonald's potential sources of liquidity.

Question 21: Although the proposed amendments do not have an effective date, the Board intends to address the needs of users of financial statements for more information about liquidity risk and interest rate risk. Therefore, the Board will strive to make these proposed amendments effective on a timely basis. How much time do you think stakeholders would require to prepare for and implement the amendments in this proposed Update? Should nonpublic entities be provided with a delayed effective date? If so, how long of a delay should be permitted and why? Are there specific amendments that would require more time to implement than others? If so, please identify which ones and explain why.

McDonald's believes the proposed amendments in their current form should allow at least one year between Board approval and the effective date. Preparers require a longer implementation timeline, even for information already provided in the MD&A, because it will be subject to audit. We will need time to develop new processes that facilitate auditor review, enhance internal controls, and prepare documentation for Sarbanes-Oxley purposes. We also believe that entities should be allowed to early adopt, in whole, or in part.



McDonald's also recommends eliminating the requirement for comparative disclosure as required by ASC 825-10-65-2.c. Prior period values are not the best source of predictive information, but they add to the overall length of the disclosures as well as the time required to prepare the necessary disclosures.

Question 22: Do you believe that any of the amendments in this proposed Update provide information that overlaps with the SEC's current disclosure requirements for public companies without providing incremental information? If yes, please identify which proposed amendments you believe overlap and discuss whether you believe that the costs in implementing the potentially overlapping amendments outweigh their benefits? Please explain why.

McDonald's believes the proposed cash flow obligation table significantly overlaps with SEC Regulation S-K Item 303(a)(1)-(2), which addresses liquidity and capital resources, and 303(a)(5), which requires a tabular disclosure of obligations in Management's Discussion and Analysis. Should the proposal be approved, we believe that the FASB should coordinate with the SEC to eliminate any duplication between MD&A and the financial statement footnotes.

To the extent that any similar disclosures remain as requirements in both MD&A and the financial statement footnotes, <u>McDonald's recommends that the time intervals be aligned</u> in order to minimize preparation effort and reduce confusion for financial statement users.

McDonald's appreciates the opportunity to express our opinion on this matter. We would be pleased to discuss our comments in greater detail if requested.

Sincerely,

Kevin M. Ozan

Senior Vice President – Corporate Controller

McDonald's Corporation

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