October 22, 2010

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

Re: Proposed Accounting Standards Update of Topic 605, Revenue Recognition
(File Reference No. 1820-100)

McDonald’s Corporation appreciates the opportunity to comment on the Exposure Draft of the Proposed Accounting Standards Update of Topic 605, Revenue Recognition (the “Proposed ASU”). While we understand the FASB’s and IASB’s (“the Boards”) objectives underlying the Proposed ASU and support the goal of providing reliable information to users of financial statements, we have significant concerns with certain aspects of the Proposed ASU and believe other aspects need more clarity.

McDonald’s Operating Structure

McDonald’s franchises and operates over 32,000 restaurants in 117 countries. More than 26,000 of these restaurants are operated by franchisees, including conventional franchisees under franchise arrangements, and foreign affiliated markets and developmental licensees under license agreements. McDonald’s conventional franchise and license arrangements are generally for a term of 20 years and grant the franchisee the right, license and privilege to: (a) adopt and use the McDonald’s system; (b) advertise that franchisee is a franchisee of McDonald’s; (c) adopt and use trade names and trademarks designated to be part of the McDonald’s system; and (d) either occupy the restaurant or develop a specific geographic territory.

Under our business model, McDonald’s owns the land and building or secures long-term leases for both Company-operated and conventional franchised restaurant sites. For conventional franchised sites, McDonald’s leases the property to the franchisee. Foreign affiliated markets and developmental licensees control their own real estate interest.

In order to support and enhance the McDonald’s Brand, McDonald’s is required to perform various services over the term of the license, which include but are not limited to: (a) advising and consulting on the operations of the restaurant; (b) communicating know-how, and new developments, techniques and improvements in restaurant management, food preparation and service; (c) providing business and training manuals; and (d) supporting advertising programs and training.

Conventional franchisees contribute to the Company’s revenue stream through payment of rent and royalties based upon a percent of sales, with specified minimum rent payments. Under a developmental license arrangement, the Company receives a royalty based on a percent of sales. Under both arrangements, the Company also earns an initial fee that is recognized upon the granting of the license. As the franchisor, McDonald’s retains significant exposure to the risks of the business operations.

Our perspective and key concerns regarding the Proposed ASU are described below.

Impact on Franchising Businesses

License and rights to use

We understand that the Boards have attempted to address how an entity would identify performance obligations in a contract in which an entity licenses its intellectual property by granting a customer the right to use that property. However, the exclusive/nonexclusive criteria established in the Proposed ASU
appears to add an element of complexity in determining the appropriate timing for revenue recognition in businesses like ours. Since the proposed ‘bright line’ distinction between exclusive/nonexclusive rights results in revenue recognition patterns that are completely dissimilar, we believe that the Boards need to add more clarity around this topic or ease the ‘bright line’ distinction to allow for a recognition pattern that better matches the underlying transaction. Depending upon interpretation of how license arrangements are classified, the resulting pattern of revenue recognition may be irrational in relation to the economics of the business. As an example, if rights granted are specific to a location (i.e., an individual street address - similar to a lease), we would view this relationship as exclusive in nature and recognize royalty revenue over the term of the license, similar to current accounting standards where the revenue is not recognized until earned from the franchisee. However, we believe that one could interpret the guidance in the Proposed ASU to conclude that the rights granted are nonexclusive, which would result in upfront recognition of revenues and make little sense for our arrangements as we have an ongoing obligation to provide support to the franchisee over the term.

Further, at inception of the license, we earn an initial fee that is generally fixed. Our performance obligation related to this fee is fulfilled at the time we grant the license. Thus, upfront recognition of revenue may still be appropriate, but not permissible, if the relationship were determined to be exclusive under the Proposed ASU.

**Recognition and measurement of revenue**

We believe that the royalties we earn represent variable consideration related to a specific period. As described earlier, the royalties are earned as a result of the ongoing services we provide. Therefore, recognizing revenue from the royalty cash flow stream based on a percent of sales, which is common in the franchising industry, best matches the results of the franchisor’s ongoing efforts to help drive overall system sales and the strength of the brand. Depending on the interpretation of suitable methods of recognizing revenue to depict the continuous services we provide to our franchisees, the Proposed ASU can lead to a significant change in the timing of recognition of revenue from our variable royalty cash flow stream. A significant change in the pattern of revenue recognition from current accounting standards would not provide for decision useful information in our financial statements. The potential of front loading revenues based on significant estimates that would not match the timing of costs to support the arrangement would further complicate a user’s ability to analyze the financial statements. Fee structures that are tied to the licensee’s output (sales) have been acceptable for measurement and recognition of revenues and continue to best represent the true economics of the underlying transaction.

We also have concerns regarding the significant estimation of sales that would be required under the Proposed ASU in determining the transaction price. Projecting accurate long-term sales trends is often very difficult given the level of internal and external factors that are ever changing and contribute to the ultimate sales realization. This would be further complicated by the need for ongoing, location specific, reassessment of these estimates over the term. In addition, processes, controls and systems would need to be created in order to deal with the potential significant changes in the measurement, reassessment and recognition of revenue streams for over 26,000 of our restaurants. These processes would then be further complicated by the proposed requirement that variable consideration be measured on a probability-weighted outcome, which we believe is not practical. We believe these costs to comply could be substantial and would outweigh the benefits of any perceived improvement in financial reporting. Due to the significant use of estimates, there would always be the potential for numerous adjustments throughout the franchise term, despite the significant resources devoted to the process and the information being subject to substantial audit procedures. We have difficulty understanding how this would enhance the usefulness of the income statement as it moves farther away from actual cash flows, which is how most investors are valuing the business.

Finally, further clarification of the Board’s intent in relation to the measurement and recognition of franchising or licensing arrangements would ensure consistent interpretation and application of the standards. This is important as not all licensing arrangements are the same, much like not all lease
arrangements are the same. We also believe it is important to ensure measurement and recognition of revenue for lessors under lease agreements, especially variable arrangements, is conceptually consistent with the Proposed Revenue Recognition Standard. Finally, we do not believe that a customer’s credit risk should reduce the revenue an entity recognizes based on a probability-weighted amount of consideration expected to be received; rather we believe that collectability should continue to be addressed through an evaluation of the carrying amount of receivables.

In closing, we believe current accounting guidance for the franchising industry supports providing decision useful information for investors, management and creditors. Current accounting is simple and understandable for all users and reflects the economics of the franchise relationships, especially those with variable consideration reflected in the arrangement. In addition, it provides for the ability to more easily forecast future cash flows from these revenue streams, which investors consider as very important in determining the economic value of the business.

We appreciate the opportunity to express our opinion on this matter and would be pleased to discuss our comments in greater detail if requested.

Sincerely,

/s/ Kevin M. Ozan
Kevin M. Ozan
Corporate Senior Vice President - Controller