



April 21, 2020

Mr. Russell Golden
Chairman
Financial Accounting Standards Board
401 Merritt 7 Corporate Park
Norwalk, CT 06856

Dear Chairman Golden:

On behalf of the International Franchise Association (IFA), the world's oldest and largest organization representing franchising worldwide, I write on behalf of the nation's franchising community, which prior to the COVID-19 pandemic, was comprised of over 733,000 establishments that employed nearly 8 million individuals and contributed \$674.4 billion of economic output to the U.S. economy. I am writing particularly with regard to Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and the actions taken by the Financial Accounting Standards Board (FASB) to grant relief to the franchising sector at its meeting held on Wednesday, April 8, 2020. Thank you for your understanding and appreciation of our concerns, as well as your leadership, during this critical time.

IFA fully supports the Board's decision to allow an extra year to implement Topic 606 for franchisors that are not public business entities. We also appreciate the Board's decision to make this amendment optional, allowing franchise brands the flexibility to choose the most financially prudent path forward for their companies.

We also eagerly await the results of the research project, which will evaluate how to simplify the process for small businesses and reduce implementation costs related to Topic 606 for income derived from initial franchise fees. Historically, franchise brands have been allowed to recognize their initial franchise fees, which average around \$36,000, when all material services or conditions relating to the sale have been substantially performed or satisfied, generally no later than when the franchisee is operational. Typically, initial fees were viewed by the franchisor as funds to defray the costs to be incurred by the franchisor in their process of assisting the franchisee through the initial stages until operational. As you know, ASC 606 changed the long-settled process, resulting in a standard with the potential to delay full recognition of initial franchise fees for as many as ten or twenty years.

Moreover, the cost of reviewing and implementing 606 has been especially difficult to bear for many smaller franchisors (and even larger ones). Additionally, we have seen a wide disparity in how different audit firms have been addressing ASC 606 – some adopt the approach that the entire initial franchise fee may be recognized only ratably over the term of the franchise agreement, while others closely follow the 5-step process laid out in ASC 606 and the Board's guidance. Both ways, there is inconsistency in reporting due to the extent of subjectivity related to assumptions in the application and in compliance with the current standard, and therefore, comparability and trends within same industries as well as within individual entities can be skewed.

Specifically, among the impact of the changes are the effects upon current ratios as well as equity (which the regulators view under statutes and other formulae that typically include examination of a franchisor's "net worth"). Because these metrics are barometers widely applied by state regulators to determine when a franchisor may be financially unstable, state examiners have raised (and will invariably raise) concerns about whether franchisors whose financial statements reflect the ASC 606 adjustment must be subject to an "impound



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condition.” In the context of state franchise regulation, an impound condition typically requires a franchisor to infuse additional cash, enter into an escrow arrangement with a state-approved bank, post a state-approved surety bond, or defer collecting the initial fee until after the franchised business is opened (and after the franchisor has expended the funds necessary to meet all of its pre-opening obligations). Impound conditions can be costly for franchisors to structure and implement, and may further impede cash flow as well as the sale of new franchises.

Without relief, the financial impact on franchising and the U.S. economy would be material, as state impound requirements in franchise registration states would further amplify cash flow concerns and potentially impede the small business owners’ access to cash needed for financial obligations, including common pre-opening fees and taxes. Accordingly, we urge you to adopt an expedient that allows private franchisors to immediately recognize the maximum portion of the initial franchise fee under the rule, without inordinately burdensome analysis required.

Thank you for your leadership during this unprecedented time and for your consideration of these technical clarifications. We stand ready to work with you and the FASB’s professional staff in this critical moment.

Sincerely,

A handwritten signature in black ink that reads 'Robert C. Cresanti'.

Robert Cresanti, CFE
President and CEO
International Franchise Association