



The Association of
Accountants and
Financial Professionals
in Business

November 3, 2020

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

Re: File Reference No. 2020-600, Proposed Accounting Standards Update, *Franchisors – Revenue from Contracts with Customers (Subtopic 952-606)*

Dear Ms Salo:

The Financial Reporting Committee (FRC) and the Small Business Committee (SBC) of the Institute of Management Accountants (IMA) are writing to share their views on the Financial Accounting Standards Board's (FASB or Board) Proposed Accounting Standards Update (Proposal or ED), *Franchisors – Revenue from Contracts with Customers (Subtopic 952-606)*.

The IMA is a global association representing over 140,000 accountants and finance team professionals. Our members work inside organizations of various sizes, industries and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities, and multinational corporations.

The FRC is the financial reporting technical committee of the IMA. The FRC includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics, and analysts. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals, and other documents issued by domestic and international agencies and organizations. Additional information on the FRC can be found at www.imanet.org (About IMA, Advocacy, Financial Reporting Committee).

The SBC addresses issues that impact small and medium-sized organizations. On behalf of IMA's members, the SBC engages and suggests solutions to standard-setters and regulatory agencies such as the FASB, Securities and Exchange Commission, International Accounting Standards Board, Small Business Administration, American Bankers Association, Internal Revenue Service, and others. Additional information on the SBC can be found at www.imanet.org (About IMA, Advocacy, Small Business Committee).

We applaud the Board's effort to simplify standard application for private companies. However, we believe that there are many things wrong with this Proposal.

First, the Proposal violates a core principle of Topic 606, the FASB's marquee principle based standard applicable to all industries. The goal of Topic 606 was to replace all the specialized industry GAAP for revenue recognition. This Proposal is going in the opposition direction and opens the door for further requests from other industries.



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Second, we believe, like the dissenting Board members, that the Proposal is an exception not a practical expedient

Third, we believe that in most franchise relationships the pre-opening services described in paragraph 952-606-25-2 of the ED are not “distinct” as defined in Topic 606 and thus are not usually afforded upfront revenue recognition. These services are usually unique to the franchisor and very integrated to the franchise agreement. In fact, upon adoption of Topic 606, major public franchisors (such as McDonald’s, Yum, Dunkin’ Brands and Marriott) changed the recognition of initial franchise fees from store/facility opening to over the franchise term. This belief renders the implementation guidance and illustration in particular paragraph 952-606-55-2 unrealistic and thus potentially confusing, if not misleading, to the FASB’s constituents.

Fourth, we do not agree with the assertions on pages 1, 3, 17 and 18 of the ED that the practical expedient will result in accounting that is consistent with the intent of Topic 606 (such as in actual application) and that only in some cases will the accounting be different. These assertions are inconsistent with the accounting by major public franchisors for initial franchise fees as noted above.

Fifth, if reducing costs and simplicity are the objectives which is what the ED asserts, those objectives are achieved by the suggestion offered by the dissenting Board members in paragraph BC44. The Board could provide an optional exception to defer and amortize all initial franchise fees over the franchise term which will actually achieve a result similar to many public franchisors under Topic 606.

We appreciate the opportunity to provide comments on the Proposed Update and would be pleased to discuss our comments with the FASB or its staff at your convenience.

Sincerely,

A handwritten signature in blue ink that reads "Nancy J. Schroeder".

Nancy J. Schroeder, CPA
Chair, Financial Reporting Committee
Institute of Management Accountants
nancy@beaconfinancialconsulting.com

A handwritten signature in black ink that reads "Heather Bain".

Heather Bain, CPA, MBA, CMA
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