



BRAD SHERMAN
UNITED STATES CONGRESS

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May 12, 2020

Russell Golden
Chairman
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856

Re: Application of Revenue Recognition Standards to Franchisors

Dear Chairman Golden,

We appreciate FASB's decision on Wednesday, April 8, 2020, to delay the effective date of ASC Topic 606 for private franchise brands and to add a research project to the technical agenda that will review the recognition of income derived from the collection of initial franchise fees from franchisees.

We are not writing you to ask you to change your principles. Rather, we write to urge you to adopt a simplified version of the methodology for implementing such principles (at least for non-public franchisors) and commend you for taking steps towards that end.

When a franchisor begins to sell franchises, franchise fee revenue dominates royalty revenue, which takes time as franchise units are established. A small, and perhaps new, franchisor is not well positioned to spend what has proven to be upwards of twenty-five to fifty thousand dollars on accounting fees in order to implement ASC 606.

The question is how much revenue should be recognized by the franchisor when it completes providing the advice and services necessary for the franchisee to begin operations. Your principles basically provide that, at that time, the franchisor recognize as revenue the cost it has incurred in providing non-brand-specific services necessary for the franchisee to open for business.

The International Franchise Association has reviewed this matter and determined that across the industry, emerging brands with less than 100 units, which consists of more than 1500 brands, spend on average 73 percent of the franchise fees providing such non-brand-specific services.¹

¹

"Franchisor's Business Costs Related to the Initial Franchise Fee," Anya Nowakowski, FRANData, April 27, 2020.
www.frandata.com/franchise-business-costs-and-iff/



Accordingly, we would urge you to adopt an expedient that allows private franchisors to immediately recognize a portion of the maximum initial franchise fee allowable, without additional analysis required.

In at least four instances, the Private Company Council and the Financial Accounting Standards Board have provided similar accounting alternatives for private companies. In at least one instance, this alternative was provided on the basis that it would 'reduce the cost and complexity' of applying the standard.²

The undersigned speak with some experience with regard to the need for practical rules to allow for the application of accounting principles by small businesses.

Very truly yours,

BRAD SHERMAN
Chairman
Subcommittee on Investor Protection,
Entrepreneurship and Capital Markets
Co-Chair
Congressional Caucus on CPAs
and Accountants

K. MICHAEL CONAWAY
Co-Chair
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VICENTE GONZALEZ
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Member of Congress

RODNEY DAVIS
Member of Congress

KURT SCHRADER
Member of Congress

DENVER RIGGLEMAN
Member of Congress

ANTHONY BRINDISI
Member of Congress

² "Business Combinations (Topic 805)," FASB Accounting Standards Update, No. 2014-18 (December 2014): pg. 1, https://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176164674146&acceptedDisclaimer=true