



Dear Members of the United States Senate and House of Representatives:

The undersigned franchise brands and members of the International Franchise Association (IFA) write to request swift Congressional action encouraging the Financial Accounting Standards Board (FASB) to issue accurate examples that clarify the revenue recognition schedule of initial franchise fees under their new ASC 606 rules.

Starting on January 1, 2019, brands operating under a franchise model will have to comply with new accounting standards for the recognition of revenue in licensing contracts. Because a trademark license is a core component of a franchise agreement, these new standards will be applied to the recognition of initial franchise fees, which are the fees a franchisor collects at the outset of the franchise relationship to cover initial costs, such as site selection, training in brand standards, and other immediately recognizable services.

Historically, franchise brands have been allowed to immediately recognize the initial franchise fees, which average \$36,000, when all material services or conditions relating to the sale have been substantially performed or satisfied. This rule was created decades ago to provide prospective franchisees with confirmation the franchisor is financially stable and not surviving off its initial franchise fees.

As the FASB moves towards international standards and away from the issuance of industry-specific accounting standards, franchise brands are facing significant uncertainty as to how the new revenue recognition standards will apply to initial franchise fees. This is because the only franchise-related example the FASB published as a guideline within the new rules contained a grossly inaccurate example of a \$1 million franchise fee without recognition of any multiple performance obligations, such as site selection and training in brand standards.

IFA strongly believes these services should be recognized upon substantial performance by the franchisor. FASB acknowledged the uncertainty facing franchises during their November 29, 2017, board meeting, yet this uncertainty remains due to the lack of written guidance from FASB for accounting firms to follow. Without accurate examples as a guideline, an audit of franchisor brands will produce reduced assets and greater liabilities, resulting in a lower perceived valuation on balance sheets. This inaccurate portrayal of financial stability will have a particularly devastating impact on small and growing franchise brands, which will likely have to escrow initial franchise fees collected in certain states.

It is imperative to have certainty regarding the standards that ASC 606 will impose on the franchise business model. We request that Congress ask FASB to swiftly issue accurate franchise-related examples that clarify the recognition schedule of initial franchise fees under their new ASC 606 rules before the new rules take into effect in January 2019.

Thank you,

[COMPANIES]