IFA® INTERNATIONAL FRANCHISE ASSOCIATION | FRANCHISING® Building local businesses, one opportunity at a time.

January 28, 2020

The Honorable Blaine Luetkemeyer
U.S. House of Representatives
2230 Rayburn House Office Building
Washington, DC 20515

Dear Congressman Luetkemeyer:

On behalf of the International Franchise Association (IFA), the world's oldest and largest organization representing franchising worldwide, I write in strong and enthusiastic support of H.R. 4565, the *Responsible Accounting Standards Act*. We thank you for your leadership in ensuring the Financial Accounting Standards Board (FASB) abides by the same rulemaking guidelines in place for every federal financial regulator.

Historically, franchise brands have been allowed to immediately recognize the initial franchise fees earned from incoming franchisees, which average $36,000, when all material services or conditions relating to the sale have been substantially performed or satisfied. For small business, emerging brands, the recognition of this income is critical to the financial stability of entrepreneurs who are beginning to grow their business.

In 2019, private companies were required to comply with FASB's new ASC 606 revenue recognition standards, requiring franchise brands to amortize their initial fees over the life of the franchise contract. While IFA worked directly with FASB to clarify the rules for franchisors and allow the recognition of multiple performance obligations, such as site selection and training, this clarification has not provided maximum relief to our small business franchisors. The majority of our emerging brands have been unable to recognize a portion of their initial franchise fees, and it has come to our attention that the guidance is being largely ignored. According to the franchise research firm FRANData, 930 franchise brands will be at serious risk of bankruptcy or closure within the first three years of the new revenue recognition standards going into effect if relief isn't provided. The associated 104,098 franchise small business locations will face closure, causing approximately 1.1 million job losses.

We strongly believe that if H.R. 4565 were enacted into law prior to the issuance of ASC 606, our emerging franchise brands would not be facing financial ruin. Specifically, H.R. 4565 would require the Financial Accounting Foundation to consider the impact their accounting standards will have on the U.S. economy, market stability, and the availability of credit prior to implementing new standards. This is a critical step to ensuring FASB abides by the same rulemaking guidelines in place for every federal financial regulator. We look forward to working with you on this legislation, and again appreciate your strong leadership on this issue of major importance to the franchise sector.

Sincerely,

Matt Haller
Senior Vice President of Government Relations & Public Affairs
International Franchise Association