Letter of Comment No: 7
File Reference: FSPFIN46-F

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Mr. Lawrence W. Smith
Director of Technical Application and Implementation Activities - FSP
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Re: Comments on Proposed FSP FIN 46-f

Ladies and Gentlemen:

YUM Brands, Inc. (the "Company", "we" or "us") appreciates the opportunity to comment on the Proposed FASB Staff Position No. FIN 46-f, "Evaluating Whether as a Group the Holders of the Equity Investment at Risk Lack the Direct or Indirect Ability to Make Decisions about an Entity's Activities through Voting Rights or Similar Rights under FASB Interpretation No. 46, *Consolidation of Variable Interest Entities* ("FSP FIN 46-f")." This letter does not consider decisions reached at the FASB's December 10, 2003 Board Meeting.

As you are aware, the Company and other franchisors have significant concerns with what we believe to be the unintended consequences of FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"), as originally drafted and interpreted, regarding the potential consolidation of franchise owner/operators. We appreciate the FASB's efforts in addressing many of our concerns through the issuance of a Proposed Interpretation of FIN 46 as well as FSP FIN 46-f. FSP FIN 46-f, in particular, was helpful in allowing us to make the determination that the decision-making authority we hold in our franchise arrangements does not result in the equity holders lacking the direct or indirect ability to make decisions about an entity's activities through voting rights or similar rights. However, the provisions of paragraph 5a of FIN 46, as currently drafted and interpreted, may continue to result in the determination that many of our franchise owner/operators in which we possess no equity ownership and to whom we have provided no forms of subordinated financial support are variable interest entities ("VIEs"). Importantly, this determination may be impractical, if not impossible, to make given the lack of information we receive from our franchise owner/operators.

The Proposed Interpretation of FIN 46 will allow an enterprise with an interest in a VIE created before February 1, 2003 to avoid applying the provisions of FIN 46 if exhaustive efforts do not yield the necessary information for application. As we previously communicated to you in our comment letter on the Proposed Interpretation of FIN 46 dated November 26, 2003, we believe instances where we are unable to obtain the necessary information from our franchise owner/operators necessary to apply FIN 46 will be frequent. In the great majority of cases, we have no legal or contractual right to require franchise owner/operators to provide any significant level of financial information, let alone audited financial statements in accordance with US GAAP.

Even in those rare instances where we do obtain sufficient information from our franchise owner/operators to appropriately apply FIN 46, a determination will often be made that there is not sufficient equity solely within the franchise entity to allow it to finance its activities without additional subordinated financial support. While we consider a franchise owner/operators' financial condition, among other factors, when granting a franchise, we generally do not require a certain level of equity be held solely within the franchise owner/operator entity. Additionally, in today's lending environment, we believe it is common for a bank to request a personal guarantee by the equity holders for any borrowings made by the franchise entity, no matter how well capitalized. Finally, we do not generally restrict our franchise owner/operators from taking equity out of the business at anytime nor do we require that they notify the Company when they do so (though this would most likely be a reconsideration event under paragraph 7b of FIN 46 as modified by the Proposed Interpretation). Collectively, these events will often lead to little or no equity being held within the franchise owner/operator entity and the conclusion, in the rare circumstances when information is available to draw a conclusion, that a franchise owner/operator entity is a VIE.

The Company has believed all along that consolidation of franchise owner/operators in which it possessed no equity ownership and to whom it has provided no forms of subordinated financial support was inappropriate and would result in confusing and misleading financial statements that were not consistent with a well-established and understood accounting model for franchising. Additionally, the Company's determination that it will not require the franchise owner/operators to provide financial information other than sales, possess a certain level of equity or notify the Company in the event of a transfer of equity is a clear indication that the Company does not believe it has significant financial risk with regard to its franchise owner/operators. Therefore, a requirement to consolidate franchise owner/operators under the premise that we have a controlling financial interest therein would be inconsistent with our belief as to the business reality of the Company's relationship with our franchise owner/operators.

While we believe FSP FIN 46-f is a positive step in the right direction, FIN 46, as currently written and interpreted, continues to have serious implications for franchisors. Given our inability to obtain franchise owner/operator financial information and our decision in most instances to not require certain levels of franchise owner/operator equity, we do not believe that we can appropriately apply FIN 46. In fact, the only viable alternatives we currently believe we possess are to apply the exhaustive efforts exemption to the vast majority of our franchise owner/operators or to assume that all of our franchise owner/operators are VIEs. We believe that

both of these alternatives do not truly reflect the business or economic reality of the Company's relationship with its franchisees and will be viewed negatively by investors and will result in confusing and difficult to understand disclosure. This treatment would also be contrary to the FASB's stated expectation in FSP FIN 46-f that all franchise arrangements are not VIEs.

Under the current transition rules we will be forced to adopt FIN 46 in approximately two weeks. The lack of understanding among the franchise community and its auditors as to how to apply FIN 46 is a significant barrier to adoption. Even at the date of this letter, confusion remains regarding such fundamental issues as to what constitutes a variable interest and how to apply the expected losses calculation. With nearly 2,000 franchise owner/operator entities operating over 23,000 franchised stores in over 100 countries and territories, adoption is not an insignificant task for the Company. Thus, we ask that you strongly consider a deferral of FIN 46 until some future date at which its provisions can be better understood.

We appreciate the opportunity to comment on FSP FIN 46-f and FIN 46.

Very truly yours,

Gregory N. Moore
Senior Vice President and Controller