



Gregory N. Moore

Senior Vice President & Controller

YUM! Brands, Inc.
1900 Colonel Sanders Lane
Louisville, KY 40213
Tel 502 874-2134
Fax 502 874-3370

June 28, 2004

Ms. Suzanne Bielstein
Director of Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Letter of Comment No: 5459
File Reference: 1102-100

Exposure Draft: Proposed FASB Statement, *Share Based Payment: an amendment of FASB Statements No. 123 and 95* (File Reference No. 1102-100)

Dear Ms. Bielstein:

We appreciate the opportunity to comment on the Exposure Draft, *Share-Based Payment* (the "ED"). Specifically, we would like to comment on issues 9 and 13 as identified by the Financial Accounting Standards Board (the "Board") in the ED.

Issue 9 – Attribution of Compensation Cost

The Board has concluded that share-based payment awards that contain graded-vesting provisions should be accounted for as separate awards, each with a different fair value measurement and requisite service period. We concur that an award with graded-vesting provisions has a higher grant-date fair value than an award that cliff vests, all other terms being equal.

However, we do not agree with the Board's statement in paragraph C91 that accounting for an award with graded vesting as separate awards better reflects the exchange of employee services for the equity instruments. Awards that cliff vest after four years and awards that vest in an equal amount over four years are both viewed by our Executive Compensation Department as four-year retention tools. A decision to grant awards that allow for graded-vesting should (and will under the ED) result in an increased fair value. However, this fair value is clearly viewed by both the company and its employees as being provided equally over the course of the vesting period. A model that would attribute over half of the total employee service costs for the graded vested award in the first year does not reflect this reality. Instead the proposed attribution model will result in an unrepresentative amount of expense recognition in the first year of vesting of a graded award, resulting in a "ramp up" effect in the initial years after adoption. This recognition pattern will be difficult to explain to both management and investors, clearly counter to the



Board's stated objective to simplify the accounting. As such, we believe that a model that would recognize compensation costs equally over the vesting period of a share-based payment award better reflects the exchange of employee services for that award.

Issue 13 – Transition

The Board has determined that the modified prospective method is the most appropriate transition method. The use of this method will result in earnings figures that are not comparable on a pre and post-adoption basis, requiring pro-forma explanations whenever such figures are compared. This lack of consistency is also counter to the Board's position in the proposed Statement, "*Accounting Changes and Error Corrections*" that restating financial statements as if a newly adopted accounting principle had always been used results in greater consistency among periods.

We understand the difficulties of and are not proponents of retrospective application for the reasons as discussed in paragraph C158. Instead, we believe the most appropriate transition method is retroactive restatement, with pre-adoption years restated to reflect the expensing of amounts that were previously disclosed on a pro-forma basis under SFAS No. 123. This method would result in reported expense being determined differently in some respects for pre and post-adoption years. However, the Board's proposed modified prospective method will also result in these determination differences for awards that were granted on a pre-adoption basis for which the service period extends beyond adoption and awards granted post-adoption. Given differences in the proposed methodology for post-adoption awards for determining fair value, accounting for forfeitures and attributing costs for awards that contain graded-vesting provisions, we anticipate that this difference will be significant for many companies. Additionally, we anticipate that financial statement users will largely utilize the pro-forma disclosures required for pre-adoption years for determining comparability.

Finally, we believe decisions not to adopt the fair value approach of SFAS No. 123 using one of the permitted methods under SFAS No. 148 were in practice largely influenced by the anticipated forthcoming requirement to expense share-based payment awards. If the Board's intentions regarding transition had been known at that time, we anticipate that many more companies might have chosen to early adopt using the retroactive restatement method, enabling their financial statements to be comparable as presented.

Thank you for the opportunity to comment.

Very truly yours,

Gregory N. Moore
Senior Vice President and Controller