

January 26, 2011

Technical Director
File Reference No. 1890-100
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 1890-100: Discussion Paper on Effective Dates and Transition Methods

Technical Director:

Kellogg Company (Kellogg or the Company) appreciates the opportunity to comment on the Financial Accounting Standards Board's Discussion Paper on Effective Dates and Transition Methods, issued October 19, 2010.

Kellogg (NYSE: K) is the world's leading producer of cereal and a leading producer of cookies, crackers and other convenience foods. Our products are manufactured by us in 18 countries and marketed in more than 180 countries. In 2009, we reported revenues of \$12.6 billion. We prepare our consolidated financial statements in accordance with U.S. GAAP.

As an introduction to our comments on the Discussion Paper, we would like to highlight the following fundamental views:

- A high priority should be given to finalizing new accounting requirements that do not contain lingering FASB/IASB differences in order to avoid subsequent rework upon adoption of IFRS.
- 2. A sequential approach to adoption is preferred over the single date approach. We view the sequential approach as being more cost-effective, as it is likely to require fewer additional resources. We also believe that the sequential approach allows for a more focused, high-quality implementation.
- 3. Standards that will require retrospective adoption should be finalized at a date not less than twelve months in advance of the earliest comparative period to be presented upon implementation.

In addition, we agree with the viewpoint of the international accounting firms who have expressed concerns about the timetable for completing the convergence standards and the volume and timing of proposed changes. Standard setters should take the time necessary to produce accounting standards that are high quality,

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understandable and comprehensive to facilitate consistent application and minimize unintended consequences and post-implementation challenges.

While we have not performed the kind of thorough investigation needed to identify all of the implications associated with adoption of the updated standards, we have given serious consideration of the question of how much effort and cost will be required to adapt to the proposed changes in accounting. Many of the projects are likely to undergo a considerable amount of additional deliberation, and it has generally not been prudent for companies to incur significant time and cost to determine what new processes and controls are needed to operationalize complex changes in accounting rules before they are finalized.

Degree of impact of proposed standards

The following are the projects listed in the Discussion Paper that we believe will have the most significant effect on the Company, an assessment of the degree of impact of the proposed standards and a description of factors driving that effect:

Leases

Anticipated degree of impact on the Company: High.

We lease a variety of assets worldwide under leases that number in the thousands. The leases are not standardized and contain various terms and conditions, some of which are complex. Under the current rules, these leases are accounted for as operating leases. The proposed change in accounting would require us to record a right-of-use asset and a related liability for each leasing arrangement. Each lease agreement will need to be thoroughly reviewed, and assigned a lease term based on probability-weighted outcomes associated with renewals. We have significant concerns about the economic cost of implementing the proposed change in accounting. We lack IT systems and personnel that will be required to perform the tasks associated with the implementation of and ongoing accounting for the proposed changes in lessee accounting. Making a preliminary determination of how the new standard will impact net earnings for a large number of leases in process is not a straightforward exercise; however, integration into the planning process will be a priority. Based on the number and the materiality of leases and the implications of adoption, we anticipate that the impact of implementing the proposed accounting changes will be significant.

Revenue recognition: revenue from contracts with customers

Anticipated degree of impact on the Company: High.

In conjunction with the sales order negotiation process, we agree to make payments to customers in exchange for merchandising activities that are linked to the sale of our products. Under the current rules, these customer payments are accounted for as a reduction of revenue. Our sales arrangements are nonstandard and vary significantly from country to country and by customer type. The proposed change in accounting will require us to evaluate customer payments to consider whether they relate to activities that have a distinct function, and if so, determine the related fair value and record as an expense. We have significant concerns about the economic cost of implementing the proposed change in accounting. Considerable time and effort will be required to evaluate customer payments to determine the appropriate income statement line item classification, and to develop a procedure to calculate the fair value of the merchandising activities provided by the customer. Based on the

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number and materiality of these arrangements and the complexity of determining fair value, we anticipate that the impact of implementing the proposed accounting changes will be significant.

Accounting for financial instruments and revisions to the accounting for derivative instruments and hedging activities

Anticipated degree of impact on the Company: Medium/High

We use derivative instruments to manage market risk associated with changes in foreign currency exchange rates, interest rates, and pricing of commodities. We designate our derivatives as hedges of the underlying exposure. The proposed change in accounting will eliminate the shortcut and critical terms match approaches to measuring ineffectiveness. It will also change the principles associated with quantifying ineffectiveness on hedges and will affect dedesignation of hedges. We will need to develop new procedures to address the changes required, including a process for implementing long haul methodologies for evaluating hedge effectiveness. Compared with leases and revenue recognition, adoption of the proposed standard on derivative instruments and hedging will not involve as large a volume of transactions. Nonetheless, the complexity and risk associated with this topic drives our assessment that the anticipated impact of implementing the proposed accounting changes will still be a major project for the Company.

Other proposed changes in accounting

We have refrained from commenting on the Discussion Paper's other proposed changes in accounting. We believe that the anticipated degree of impact on the Company from adoption of the other proposed changes is *Low*. The exception to this assessment is Financial Statement Presentation, which we excluded from this discussion because of the Board's decision to suspend deliberations on that topic.

Time and costs required to implement new standards.

The process of adoption of new accounting rules involves a number of steps that include: Preparing an initial assessment and strategic plan; collecting data and information from various departments in the global organization; assessing sufficiency of IT systems; establishing new accounting policies and procedures; determining the impact on planning and analysis, debt covenants, and employee compensation plans; verifying internal controls; educating personnel; undergoing additional audit procedures; and, integrating the new approach into the Company's day-to-day operations. The existence of international geographies and different languages in the organization further complicates the process of fulfilling these requirements and therefore adds to the time and cost associated with the process.

Our preliminary assessment of major factors affecting the time and cost associated with implementation of the proposed standards includes the following:

Leases—Current lack of IT system availability; implementation of an IT system after a solution becomes available; the impact on time and cost associated with all companies needing the same systems simultaneously; data collection and analysis to facilitate the initial recognition of existing leases; undergoing additional audit procedures.

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Revenue recognition—The need to define and operationalize procedures to quantify the fair value of customer payments; data collection and analysis; evaluation of IT systems and modification as needed; educating personnel involved with revenue recognition throughout the global organization; undergoing additional audit procedures.

Financial instruments—Clarifying and defining new accounting policies and procedures; undergoing additional audit procedures; evaluating and modifying IT systems.

We recommend that the proposed rules on leasing be finalized except for the effective date, which should be should be determined when the IT systems issues described above have been resolved. After a solution becomes available, we estimate that it will take approximately 18-24 months to implement the new software.

We believe that determination of the effective date for the standards on revenue recognition and financial instruments should be driven by the date that the standards become finalized, and should provide for at least one year in advance of the earliest comparative period to be presented upon implementation. For example, if a new accounting pronouncement is finalized in December 2011 to be adopted retrospectively as of the first annual reporting period beginning after December 2014, this allows for at least one year of preparation before the earliest comparative period to be presented, with the earliest comparative period beginning in January of 2013.

Overall implementation plan: single date approach vs. sequential approach.

We prefer a sequential approach to adoption over the single date approach. We view the sequential approach as being more cost-effective, as it is likely to require us to engage fewer additional resources. We also believe that the sequential approach allows for a more focused, high-quality implementation. In addition to these considerations, our recommendation is based on the following additional observations:

- There are no obvious synergies to be achieved by adopting several new accounting rules at the same time. While in theory the steps to be followed are similar, the process is specifically tailored to the requirements of each standard.
- Requiring adoption of several new accounting standards on a single date could make certain implementation activities more difficult, for example: implementation or modification of IT systems simultaneously; the education of diverse groups of personnel within the Company on different topics, undergoing incremental external audit procedures, etc.
- Taking a sequential approach will help to reduce confusion and allow management to remain focused on core operations of the company.

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Thank you for your consideration of our viewpoint. We would be pleased to discuss our comments or answer any questions that you may have.

Sincerely,

Ronald L. Dissinger

Senior Vice President and Chief Financial Officer

Alan R. Andrews

Vice President and Corporate

Controller