December 15, 2010

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

File Reference No. 1850-100

Dear Sir/Madam:

Yum! Brands, Inc. ("YUM") thanks you for the opportunity to comment on the Exposure Draft, Leases, issued on August 17, 2010 ("Exposure Draft"). YUM is a worldwide quick service restaurant company that operates, franchises and licenses a system of over 37,000 restaurants which sell quick service food items through its five restaurant concepts (KFC, Pizza Hut, Taco Bell, LJS and A&W). We lease the underlying land and/or building in nearly 6,200 of the over 7,600 restaurants that we operate. Additionally, we also lease office space for headquarters and support functions, as well as certain office and restaurant equipment. We are also involved in leasing or subleasing real estate and restaurant equipment to our franchisees and other third parties. Accordingly, the Exposure Draft will have a significant impact on our accounting processes and financial statements. We address our primary concerns with the Exposure Draft in our responses to Questions 6, 8, 9, 10, and 17 as follows.

Question 6: Contracts that contain service components and lease components

This exposure draft proposes that lessees and lessors should apply the guidance in proposed Accounting Standards Update, Revenue Recognition (Topic 605): Revenue from Contracts with Customers, to a distinct service component of a contract that contains service components and lease components (paragraphs 6, B5–B8 and BC47–BC54). If the service component in a contract that contains service components and lease components is not distinct:

(a) The FASB proposes the lessee and lessor should apply the lease accounting requirements to the combined contract.

(b) The IASB proposes that:

(i) A lessee should apply the lease accounting requirements to the combined contract.

(ii) A lessor that applies the performance obligation approach should apply the lease accounting requirements to the combined contract.
(iii) a lessor that applies the derecognition approach should account for the lease component in accordance with the lease requirements, and the service component in accordance with the guidance in the exposure draft on revenue from contracts with customers.

Do you agree with either approach to accounting for leases that contain service and lease components? Why or why not? If not, how would you account for contracts that contain both service and lease components and why?

We believe that to the extent practicable, all service components and executory costs included in lease agreements should be excluded from lease accounting and instead accounted for under other relevant accounting standards. Including such costs in the calculation of the Right to Use Asset and the Lease Liability is analogous to capitalizing future periodic costs (such as property taxes, utilities, common area maintenance, etc) to the carrying amount of land and building in a real estate purchase. However, to the extent such costs are inherent in the lease contract and cannot be readily identified and quantified, the preferred treatment would be to leave them in lease accounting rather than to attempt to allocate or estimate these costs in order to bifurcate them from the lease. It is our experience that landlords are reluctant to provide any information that would allow us to reliably determine such costs inherent in a lease. Additionally, the unique characteristics of each leased property make it difficult for us to estimate such costs.

We also believe additional guidance, including specific examples of treatment for customary lease provisions as well as additional clarity around determining distinct costs versus non-distinct costs, is needed to provide greater clarity for the final approach adopted in this area.

Question 8: Lease term

Do you agree that a lessee or a lessor should determine the lease term as the longest possible term that is more likely than not to occur taking into account the effect of any options to extend or terminate the lease? Why or why not? If not, how do you propose that a lessee or a lessor should determine the lease term and why?

We disagree that the lessee or lessor should determine the lease term as the longest possible term that is more likely than not to occur as proposed by the Exposure Draft. YUM leases the land and/or building for approximately 6,200 restaurants and is also a party of leases or subleases of real estate to our franchisees and other third parties. Many of these leases contain one or more renewal options which can lead to a potential lease term that ultimately spans a period of over 20 years. The ultimate decision as to whether to exercise a renewal option is dependent on many factors, some of which are outside our control such as changes in macroeconomic factors, competitor actions, consumer traffic patterns or drivers, and neighborhood or political stability. As a result of these external factors, the “longest possible term that is more likely than not to occur” approach will be difficult to implement due to the judgment and subjectivity in determining the lease term.

YUM currently includes the original lease term and any renewal options that are reasonably certain to occur due to penalty of non-renewal in accordance with the existing lease guidance. Such penalty generally consists of the potential impairment of a significant capital investment we have made in the leased property. We believe this is a better method for determining the lease term as it better correlates the lease term with business decisions we have made regarding the leased property and more accurately reflects our liability with respect to the leased property. Any further judgments regarding the lease term at the lower threshold would be arbitrary and unsupported by any business decisions made.
Question 9: Lease payments

Do you agree that contingent rentals and expected payments under term option penalties and residual value guarantees that are specified in the lease should be included in the measurement of assets and liabilities arising from a lease using an expected outcome technique? Why or why not? If not, how do you propose that a lessee or a lessor should account for contingent rentals and expected payments under term option penalties and residual value guarantees and why?

Do you agree that lessors should only include contingent rentals and expected payments under term option penalties and residual value guarantees in the measurement of the right to receive lease payments if they can be reliably measured? Why or why not?

A substantial portion of our leases contain contingent rentals based on sales at the individual restaurant level. We do not agree that contingent rentals based on sales that are specified in the lease should be included in the measurement of assets and liabilities arising from a lease under any circumstances. We believe that only payments that are certain obligations under the lease agreement should be included in the measurement of assets and liabilities arising from a lease. These are the only payments that represent the on-going obligations known under the lease, and they are the only obligations that meet the conceptual definition of a liability. We believe that contingent rentals based on sales should be recorded as the sales occur, as no obligation has occurred until the underlying sales transaction has taken place.

Forecasting sales for a group of restaurants in a region is difficult due to the multitude of factors that impact our restaurants such as macroeconomic factors, competitor actions, consumer traffic patterns or drivers, and neighborhood or political stability. It becomes even more difficult at the individual restaurant level as factors become more unique and can have a greater impact than when evaluated collectively. For this reason, we currently do not forecast individual store performance beyond one year for business purposes. The forecast of sales beyond one year for our restaurants that are leased is thus incremental work that management, and we believe investors, would not deem worthwhile or meaningful. Additionally, the inclusion of sales based contingent rentals would introduce estimates with little basis into the financial statements, thereby decreasing the reliability of those statements to the end users. The utilization of a probability-weighted average to project possible outcomes of contingent rentals only increases the level of associated incremental work and would, in practice, produce an estimate that is no more reliable than a point estimate.

Question 10: Reassessment

Do you agree that lessees and lessors should remeasure assets and liabilities arising under a lease when changes in facts or circumstances indicate that there is a significant change in the liability to make lease payments or in the right to receive lease payments arising from changes in the lease term or contingent payments (including expected payments under term option penalties and residual value guarantees) since the previous reporting period? Why or why not? If not, what other basis would you propose for reassessment and why?

We agree that lessees and lessors should reassess the assets and liabilities arising under the lease when a significant change in the right to receive lease payments or the liability to make lease payments has taken place. Due to the significant estimates used in the calculation of the lease asset or liability under the proposed methodology of the Exposure Draft, reassessment will be required. However, the administrative burden for monitoring all the estimates required by the Exposure Draft between reporting periods will be onerous, especially for SEC filers with accelerated filing deadlines. We believe a more manageable
approach would be to capture significant changes in the lease term or contingent payments that have occurred during the period at each period end to ensure the appropriate timing of expense or income recognition during the period. Reevaluation of the estimate for future periods and any necessary changes to the assets and liabilities arising under the lease should be performed on an annual basis as part of a yearly review of accounting estimates. Additionally, we believe the Boards need to clarify how to account for differences between actual and estimated lease payments prior to the reassessment at each reporting period.

**Question 17**

*Paragraphs BC200–BC205 set out the boards’ assessment of the costs and benefits of the proposed requirements. Do you agree with the boards’ assessment that the benefits of the proposals would outweigh the costs? Why or why not?*

We do not believe that the benefits of the proposed requirements as noted in the Exposure Draft will outweigh the costs of implementation and ongoing administration. In BC204, it states that “the proposed guidance would increase the accuracy of the information provided as well as increase comparability between entities.” We fail to see how adding significant estimations, which by their nature will be arrived at differently from company to company, will improve accuracy and comparability of the information provided to the users of the financial statements.

Additionally, the Boards have said in BC205 that the costs have been reduced for preparers due to the fact that the “exposure draft proposes that detailed examination of every lease is not required unless a significant change in the lease payments is expected to occur.” However, those leases with contingent rentals will still need to be monitored each reporting period to ensure a significant change has not occurred. Thus, in practice, the Boards’ accommodation will be of little or no use to us. Additionally, since we produce store level income statements each period and have store level bonus plans, true ups of amounts, insignificant to the company as a whole but impactful to the individual store, would need to be made on a regular basis. There is no business reason to incur this cost that will only be needed for this proposed accounting. In addition to the greatly increased cost of compliance, we believe the inclusion of uncertainties from estimates related to business activities many years in the future may actually curtail the utility of the Exposure Draft further marginalizing any perceived benefit above the underlying costs.

We appreciate the opportunity to express our opinion on this matter and would be pleased to discuss our comments in greater detail if requested.

Sincerely,

David E. Russell  
Vice President and  
Assistant Corporate Controller