



Ted F. Knopf

*Senior Vice President of Finance
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Letter of Comment No: 7
File Reference: FSPFAS13-B
Date Received:

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

Re: FSP FAS13-b, "Accounting for Rental Costs Incurred during a Construction Period"

Dear Board Members:

We appreciate the opportunity to comment on Proposed FASB Staff Position FAS No. 13-b, "Accounting for Rental Costs Incurred during a Construction Period" ("FSP FAS13-b"). YUM Brands, Inc. ("YUM") and our franchisees operate nearly 34,000 restaurants across the world, the majority of which are subject to leases of land, buildings or both. As a result of operating company-owned restaurants, we are a party to nearly 5,500 leases. We currently capitalize rental costs incurred during the construction period which we believe is consistent with long-standing industry practice. Therefore, the accounting as proposed in FSP FAS13-b will significantly impact YUM.

When undertaking the development of a new site, YUM's decision as to whether to own or lease the associated assets is viewed by management as a financing decision. We believe that this also reflects the conventional view of our investors. Whether the arrangement will be accounted for as an operating lease under Statement of Financial Accounting Standards (SFAS) No. 13, "Accounting for Leases" does not impact the nature of this decision.

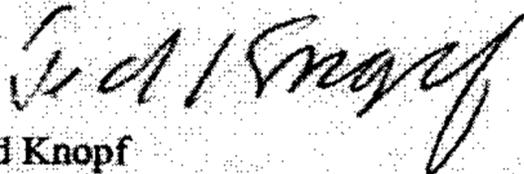
We believe that the accounting for costs incurred during the construction period should be similar no matter what financing decision we make. Generally accepted accounting principles such as SFAS No. 34, "Capitalization of Interest Cost" and SFAS No. 67, "Accounting for Costs and Initial Rental Operations of Real Estate Projects" permit capitalization of costs incurred during a construction period such as interest, property taxes and insurance. We believe rental costs incurred during the construction period are similar to these costs for which GAAP permits capitalization. We also believe that the notion that rental costs should not be capitalized because they do not constitute assets that have a future benefit is inconsistent with the principles that allow for interest, property taxes and insurance to be capitalized.

We believe consideration should also be given to the economics of situations in which the lessee constructs a building on leased land. We are not typically required to pay rent during such



construction periods. However, the lack of rent payments during that period does not in substance reflect a rent holiday for which the lessor will later recover value through increased rent payments upon completion of the building. Rather, the lack of payments reflects the lessor's acknowledgment that we are adding value to the land through construction of the building and the associated land improvements such as access to roads and utilities. While we account for such construction periods associated with land leases as rent holidays currently, our policy of capitalizing construction period rent does not result in an expense during the construction period. Finally, if the guidance as detailed in FSP FAS13-b is ratified, we believe that the transition provisions should be reconsidered. As currently written, leases that are entered into prior to the effective date of FSP FAS13-b for which construction has not yet been completed as of the effective date will require both capitalization (under our current policy) and expensing of construction period rent. Changing the policy for all of the units we typically have under construction at a single point in time would result in a significant administrative burden for YUM and other large retailers. Thus, we recommend that the guidance, if ratified, be effective for leases whose inception date is subsequent to the effective date.

Very truly yours,



Ted Knopf
Senior Vice President of Finance and Corporate Controller