Letter of Comment No: 47
File Reference: 1205-001

Technical Director – File References 1204-001, 1205-001
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Madam,

We strongly disagree with most of the guidance proposed in the Exposure Drafts, *Business Combinations, a replacement of FASB Statement No. 141* and *Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries, a replacement of ARB 51 (collectively, the ED).* We believe that the existing accounting is more aligned with the underlying economics of transactions and therefore, results in more useful financial statements for investors. As a result, we believe that existing accounting principles for business combinations and consolidations do not require major changes.

We have never used anything other than a discounted cash flows analysis to evaluate and value a business combination transaction. This economic analysis, which incorporates buyer specific cash outflows and expected cash inflows from economic ownership, is the basis for the purchase price, determines the rate of return on economic investment, and is used for senior management, the Board of Directors, and if required, shareholder approval of the transaction. This robustly prepared analysis reflects negotiations with the seller, and the buyer's best estimate of expected outcomes. Current accounting is consistent with the assumptions used in the valuation model. The marketplace participant notion of fair value and the exclusion of some of the cash outflows (i.e., acquisition fees and restructuring costs), as required in the ED, disconnects the accounting model from the economic model and results in financial statements that are not as useful. We believe that the fair value is established by the buyer and seller as a result of the business combination transaction and not as a result of a hypothetical transaction among marketplace participants. We have not addressed the reliability and verifiability issues that arise with the use of this hypothetical notion. Further, we are troubled that none of the questions in the notice to recipients addressed this fundamental change to the marketplace participant concept, and that the marketplace participant notion of fair value is being addressed separately in the Board's fair value project.

The economic unit concept introduced in the ED further obfuscates the understandability and therefore, the usefulness of financial statements. Investors use financial statements to predict the rate of return on their investments in the parent company. To reflect more than is economically owned by the parent company in the financial statements results in confusion, at a minimum. We are not aware of any investor need for such a dramatic change to current practice.

The sweeping impact of these proposed changes must be thoroughly evaluated by companies and users. There is not sufficient time in 2006 for Board deliberations, recommended field visits, redrafting and evaluation of the final standard by preparers. We urge the Board to delay the effective date.

Our comments to the specific questions included in the ED are included in Attachments I and II. We appreciate the opportunity to express our views and would be pleased to discuss our comments or answer any questions that you may have. Please do not hesitate to contact me at (914) 253-3406.

Sincerely,

Peter Bridgman

PepsiCo

Senior Vice President and Controller

cc:
Indra K. Nooyi, President and Chief Financial Officer
Marie T. Gallagher, Vice President & Assistant Controller

Attachment II

ISSUES FROM THE NOTICE TO RECIPIENTS ON CONSOLIDATED FINANCIAL STATEMENTS, INCLUDING ACCOUNTING AND REPORTING OF NONCONTROLLING INTERESTS IN SUBSIDIARIES

Reporting Noncontrolling Interests in the Consolidated Statement of Financial Position

Question 1—Do you agree that the noncontrolling interest is part of the equity of the consolidated entity? If not, what alternative do you propose and why?

No, we do not support the FASB's conclusions that a non-controlling interest should be considered part of the equity of the consolidated entity. We believe that the primary users of the consolidated financial statements view equity as the residual interest of the controlling consolidated entity.

Question 2—Do you agree with the proposed requirement to present the noncontrolling interest in the consolidated statement of financial position within equity, separately from the parent shareholders' equity? If not, what alternative do you propose and why?

No, we do not agree that both controlling and non-controlling interests should be presented within equity. This would seem internally inconsistent with the requirement to show only earnings per share for the controlling interest. We believe that the Board should consider creating a new component of financial statements for non-controlling interests.

Attributing Consolidated Net Income and Consolidated Comprehensive Income to the Controlling and Noncontrolling Interests

Question 3—Do you agree with the proposed requirements for attributing net income or loss and the components of other comprehensive income to the controlling and noncontrolling interests? If not, what alternative do you propose and why?

No. We believe that the primary users of financial statements are interested in the portion of net income that is available to them as shareholders of the parent. As a result, we believe that the proposed presentation will be confusing.

Changes in Ownership Interests in a Subsidiary

Question 4—Do you agree that changes in ownership interests in a subsidiary after control is obtained that do not result in a loss of control should be accounted for as equity transactions? If not, what alternative do you propose and why?

No, we do not believe that transactions among controlling and noncontrolling interests, after control has been obtained, represent equity transactions. Economically, transactions among

controlling and noncontrolling interests represent investment transactions and should be measured as such.

Loss of Control of Subsidiaries

Question 5—Do you agree that any gain or loss resulting from the remeasurement of a retained investment in a former subsidiary should be recognized in income of the period? If not, what alternative do you propose and why?

We do not believe that a retained investment in a former subsidiary should be remeasured, with the gain or loss recognized in income, in the period in which control is lost. We do not believe it is appropriate to allow a company to record a gain on an asset that has not been sold. An exchange transaction with an unrelated third party has not occurred, and, therefore, no gain or loss has been realized.

Question 6—Do you agree with the proposed guidance for determining whether multiple arrangements should be accounted for as a single arrangement? If not, what alternative do you propose and why?

Yes, we believe the guidance is helpful in deterring potential abuses. However, the Board may want to consider expanding the guidance with field visit examples to minimize confusion.

Reporting Earnings per Share

Question 7—Do you agree that earnings per share amounts should be calculated using only amounts attributable to the controlling interest? If not, what alternative do you propose and why?

Yes, we agree that earnings per share should be calculated using only amounts attributable to the controlling interest, given that the presentation of earnings per share information is for the benefit of common shareholders of the parent.

Disclosures

Question 8—Do you agree that disclosure of the total amounts of consolidated net income and consolidated comprehensive income, and the amounts of each attributable to the controlling interest and the noncontrolling interest should be required? If not, why?

We disagree. As stated previously, we believe that the consolidated financial statements are prepared for the benefit of the shareholders of the parent, and thus, we do not believe that the proposed display would be helpful to the shareholders.

Question 9—Do you agree that disclosure of the amounts attributable to the controlling interest should be required? If not, why?

Yes, we agree.

Question 10—Do you agree that a reconciliation of the changes in the noncontrolling interest should be required? If not, why?

No. See our response to question 8.

Question 11—Do you agree that disclosure of a separate schedule that shows the effects of any transactions with the noncontrolling interest on the equity attributable to the controlling interest should be required? Please provide the basis for your position.

No. We do not believe that these are equity transactions.

Question 12—Do you agree that disclosure of the gain or loss recognized on the loss of control of a subsidiary should be required? If not, why?

We do not believe that transactions with noncontrolling interests should be accounted for as equity transactions. As such, disclosure would not be necessary.

Transition

Question 13—Do you agree with the proposed transition requirements? If not, what alternative do you propose and why?

We do not support adoption of the proposed ED as a final statement. We observe that the substantive change from current practice makes retrospective adoption a massive effort and urge the Board to consider the practicality of such an effort.