

700 Anderson Hill Road Purchase, New York 10577 <u>www.pepsico.com</u> Tel. (914) 253-3406 Fax (914) 253-3667

PETER A. BRIDGMAN SENIOR VICE PRESIDENT AND CONTROLLER

Letter of Comment No: 7
File Reference: FSP123R-D

Technical Director – File Reference FSP FAS 123(R)-u Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

Dear Madam,

We appreciate the opportunity to comment on Staff Position No. FAS 123(R)-d Classification of Options and Similar Instruments Issued as Employee Compensation That Allow for Cash Settlement upon the Occurrence of a Contingent Event.

We agree with the conclusions reached by the Board, specifically the proposed amendments to paragraphs 32 and A229 of FASB Statement No. 123 (revised 2004), *Share-Based Payment* (FAS 123R). We believe that it would be inconsistent to arrive at a different classification (equity vs. liability) based on whether an exchange for employee services is in the form of shares or options to purchase shares (despite whether or not the options allow for cash settlement upon the occurrence of a contingent event). Therefore, we believe a probability model is appropriate. We do not support the grandfathering approach as we inherently disagree with the principles of paragraphs 32 and A229 of FAS 123R as originally written.

We understand this issue has been publicly discussed as an implementation issue since this past summer. While we appreciate the Board's willingness to revisit this matter, we are disappointed at the late timing of this proposed Staff Position, as the uncertainty as to where the Board would end up on this issue required us to spend a great deal of time considering the impact of this issue both internally and with our external auditors.

Sincerely,

Teke Beigmon

cc: Marie T. Gallagher, Vice President and Assistant Controller