



# PEPSICO



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PETER A. BRIDGMAN  
SENIOR VICE PRESIDENT  
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May 26, 2006



LETTER OF COMMENT NO. 229

Ms. Suzanne Q. Bielstein  
Director – Major Projects and Technical Activities  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

Re: Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans; File reference 1025-300

Dear Ms. Bielstein:

We agree that current accounting for pensions and other postemployment benefits lacks transparency and applaud the FASB's efforts to revisit and reform current practices. However, we would like to express our concerns regarding the following three preliminary decisions reached by the FASB:

*Use of the projected benefit obligation (PBO) to measure funded status.*

Although we understand that the PBO may more closely resemble amounts to be settled in the future than the accumulated benefit obligation (ABO), since many employees will continue to work and receive salary increases, requiring the PBO to be recorded on the balance sheet would be a contradiction to fundamental accounting concepts. Paragraph 35 of *Concept Statement 6* states that "Liabilities are probable future sacrifices...arising from present obligations...." Therefore, we believe it would be inconsistent to record the PBO as it exceeds what has actually been incurred as of the fiscal year-end date. Consequently, we believe that reflecting the ABO on the balance sheet is more appropriate and more consistent with the generally accepted definition of a liability.

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*Recognition of the accumulated postretirement benefit obligation (APBO) on the balance sheet even if subject to elimination at the discretion of the employer.*

If postretirement medical or life insurance benefits can be eliminated at the sole discretion of the employer, it seems inappropriate to record the associated obligation as a liability. For such benefits, we would recommend retaining current accounting principles—i.e., recognizing the costs of these benefits on the income statement as they are accrued, and disclosing the potential obligation in the footnotes to the financial statements. Alternatively, we believe that postretirement welfare benefits that the employer is obligated to provide due to contractual or legal commitments should be reflected on the balance sheet.

*Disallowance of measurement dates in advance of balance sheet dates.*

We cannot see the benefit of this recommendation. Although we assume that one objective of mandating a fiscal year-end measurement date is to achieve consistency among companies, this objective will often not be achieved as companies use various financial statement reporting calendars. Additionally, given the long-term nature of the assumptions used to calculate pension liabilities, changing the measurement date by three months or less will not provide a significantly more accurate estimate of the future liability. On the contrary, our fear is that the compressed time frame associated with the requirement of fiscal year-end measurement dates will create the potential for a diminution of quality in the review of Plan financial data and/or require the increased use of estimates and approximations, which would undermine efforts to improve transparency and accuracy of financial reporting. Furthermore, we are concerned whether the actuarial firms will be able to handle the increased volume of calendar year-end clients who will require valuations to be completed in January. The reduced timetable becomes even more acute for assets and obligations of defined benefit plans sponsored outside the United States.

We recognize that, to date, many companies have been able to successfully produce financial information for defined benefit pension plans based on a fiscal year-end measurement date. However, employers have not yet been required to implement the final filing deadlines imposed by SEC Release, *Revisions to Accelerated Filer Definition and Accelerated Deadlines for Filing Periodic Reports*, which is effective for fiscal years ending on or after December 15, 2006, coupled with stringent SOX 404 reporting requirements. Moreover, we believe that many companies who currently use a fiscal year-end measurement date use rollforwards, estimates or other shortcuts that may no longer be permitted under the Exposure Draft. For companies such as ours, which sponsor complex benefit programs around the world, this accelerated filing deadline renders the difficulty—and the cost—of using a fiscal year-end measurement date, substantially greater than the benefits which may be achieved through the imposition of a standardized measurement date.

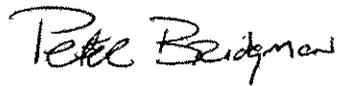
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Finally, from a practical perspective, a fiscal-year-end measurement date would impose unnecessary operating hardships on our business. An effective annual business planning cycle requires that we budget our costs in advance of the beginning of the year. As noted above, we do not believe that the adoption of a fiscal-year-end measurement date improves the quality of financial reporting for pensions and other postretirement benefit plans. However, the introduction of a delay between our budget-setting process and the determination of actual expense creates additional uncertainty without a corresponding benefit to our business.

In light of the more far-reaching impact that we would anticipate in Phase II of the FASB's review of pension accounting, we would urge the FASB to limit Phase I changes to those that have a clear benefit and are easy to implement. We support the FASB in reflecting Plan liabilities on the balance sheet (although we would recommend use of the ABO), but we strongly recommend no change be made to the rules relating to the measurement date.

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 A. Bridgman

sdq

cc: Marie Gallagher, Vice President and Assistant Controller  
Bruce J. Monte, Director Retirement Plans