

PO Box 869077
Plano, TX 75086-9077
5301 Legacy Drive
Plano, TX 75024-3109
Phone-972-673-5762



Angela Stephens
Sr. VP - Controller

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via e-mail: director@fasb.org

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

File Reference: No. 1850-100 Proposed Accounting Standards
Update of Topic 840, *Leases*

Dear Technical Director;

Dr Pepper Snapple Group, Inc. ("DPSG") appreciates the opportunity to comment on the August 17, 2010 Proposed Accounting Standards Update of Topic 840, *Leases* (the "Proposal"), issued by the Financial Accounting Standards Board ("FASB").

DPSG is one of the largest beverage companies in the Americas. We manufacture, market and distribute more than 50 brands of carbonated soft drinks, juices, ready-to-drink teas, mixers and other premium beverages across the United States, Canada, Mexico and the Caribbean.

Overall, we support the FASB in its objective to work with the International Accounting Standards Board to bring International Financial Reporting Standards and generally accepted accounting principles in the United States into convergence. While the Proposal seems to have addressed the more significant criticisms in the marketplace relating to the recognition of assets and liabilities arising from lease contracts through the right-to-use model, the Proposal unfortunately falls short in other aspects. Specifically, our most significant concern with the Proposal deals with extension terms associated with complex leases.

Extension terms associated with complex leases

Under current practice, we use real estate leases as rental contracts to obtain the use of premises (both manufacturing and warehousing) and typically request renewal options to be included. The requested renewal options do not represent the intent of DPSG to exercise, but are included in order to provide us the flexibility, if necessary, to remain or leave, based on various operational and economic factors.

Under the Proposal, the lease term would be measured as the “longest period more likely than not to occur”. Such a threshold would require a considerable amount of judgment and would be very subjective. For example, a real estate lease could have an initial term of ten years with three optional five year renewal terms, bringing a potential lease term to a total of twenty five years. Most companies typically have, at best, a long-range tactical plan for the next five years based on current operational and economic factors. Typically, those plans are reasonable for the first 12-24 months, but are difficult to predict in the outer periods. Additionally, those plans do not take into account economic downturns until one occurs. When a company’s best estimate of what the future holds can change significantly within a five year period, how can a company predict what the “longest period more likely than not to occur” is with a potential term of twenty five years?

In the example provided above, assume the initial measurement concludes a twenty five year term. The obligation on that term would be more significant than the obligation associated with a ten year term. Under the subsequent measurement, the obligation would be measured at amortized cost using the interest method. Therefore, the larger the obligation, the larger the impact to earnings associated with the accelerated cost pattern associated with the interest method. If the lease term selected at the initial term is correct, then obviously there would be no issues. However, if there was a remeasurement of the lease term, the recorded costs in the initial years would bear no relationship to the benefits generated by the leased asset and you would have the volatility of reducing the obligation and right of use asset when the remeasurement of the lease term occurred. These issues raise the question of relevance of the financial statements to the financial statement user when there is this much “noise” related to leasing activities.

Third, lease term extensions are not a liability to the company until the extension is exercised by the company or can be propelled to do so at the lessor’s option. As such, lease term extensions should not be accounted for as if they were exercised as they are not true liabilities of the company. The lease obligation should only represent the lease term when the term is virtually certain that the option will be exercised. The lease term, as defined in Accounting Standards Codification Topic 840-10-20, is an adequate definition to determine when the option is virtually certain of exercise.

Finally, most rates defined in extension terms are set at market rates determined at the execution of the renewal option. As such, determining a lease obligation for a non-existent liability when the rate is not even known makes it extremely difficult to reasonably estimate a lease obligation at the time the initial term is executed.

In conclusion, we request that you reconsider including renewal options and contingent lease periods in the initial valuation of a lease obligation. The uncertainty, lack of matching, and significant judgment required cause this part of the rule to be unmanageable.

If you have any questions on this letter, please feel free to call me at (972) 673-5762 or e-mail me at angela.stephens@dpsg.com.

Sincerely,

Angela Stephens
Senior Vice President – Controller
Dr Pepper Snapple Group, Inc.