January 13, 2006

Technical Director – File References 1235-001
   – Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Madam,

We are pleased to provide our thoughts on the Board’s Invitation to Comment, Selected Issues Relating to Assets and Liabilities with Uncertainties. We are glad that the Board is soliciting input from constituents, as many of the proposals in the Invitation to Comment and in the proposed revisions to IAS 37 represent fundamental changes to existing accounting and present significant practice obstacles. The most fundamental change is the abandonment of probability in the recognition of assets and liabilities. We believe that probability is a basic factor in recognition. Our interpretation of Concepts Statement No. 6 is that the general definition of probable must be met before any asset or liability can be recognized.

Regarding practice obstacles, processes and systems do not exist to identify and measure unconditional assets, and we suspect many unconditional liabilities. We encourage the Board to use field visits to study which contingent liabilities are identified and tracked to comply with the current probability framework versus what would be required to identify, measure and recognize unconditional liabilities under the proposed framework. This work must include an evaluation of the reliability of measurement of unconditional amounts, especially those that are not probable. For example in the area of legal claims, we find that most claims are based on unique facts and circumstances and measurement would be subject to much management judgment based on entity specific information. We question whether there is a third party that would settle these unconditional liabilities for reasonable amounts. We suggest the Board also consider both the comments received on its project on Uncertain Tax Positions and its deliberations to date on that project.
Further, we are not aware of any user criticism resulting from nonrecognition of contingent assets and urge the Board to solicit input from investors on the decision usefulness of recognizing such assets. We cannot imagine investors adding any cash flows (economic value) to valuation models for unconditional rights to negotiate a contract with a potential customer or to apply for an operating license, much less to file a lawsuit. We believe that any earnings impact from recognition of these “assets” would certainly be confusing to investors and, if understood, be disregarded.

Our comments to the specific questions included in the Invitation to Comment are included in Attachment I. 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

cc: Indra K. Nooyi, President and Chief Financial Officer
    Marie T. Gallagher, Vice President & Assistant Controller
    Nancy J. Schroeder, Vice President, External Reporting
SELECTED ISSUES RELATING TO ASSETS AND LIABILITIES WITH UNCERTAINTIES

Contingent Assets

**Question 1:** Do you agree with eliminating the notion of contingent asset? If not, why not?

No. We do not agree with eliminating the notion of contingent asset. We believe that an asset should only be recognized if it meets the general definition of probable future economic benefits under Concepts Statement No. 6. We are not aware of any practice or user issues related to referring to possible assets that are currently not probable of realization as contingent assets.

**Question 2:** Do you agree with the IASB's analysis of unconditional and conditional rights in contractual settings, as summarized in paragraphs 30 and 31 of this Invitation to Comment and paragraphs BC10-BC13 of the IASB Exposure Draft? If not, why not?

No, we do not agree with the IASB's analysis of unconditional and conditional rights in contractual settings. We believe that the insurance example may be overanalyzed and, believe that an insurance contract represents no more than the purchase of a service for a fee with expense for that service recognized over the period the service is provided. Furthermore, as noted in our cover letter, the broad application of this analysis leads to the recognition of assets with no economic value to investors as illustrated in the examples in paragraphs 33-35.

**Question 3:** If you answer yes to Question 2, do you agree that the IASB has appropriately applied the notion and supporting reasoning referred to therein in the analysis of Example 1-3 in paragraphs 33-35 of this Invitation to Comment? If not, why not?

Our answer to Question 2 is no. However, see response to Question 2 for comments regarding paragraphs 33-35.

**Question 4:** Do you agree with the IASB's proposal to classify as intangible assets those unconditional rights that are associated with conditional rights and that satisfy the definition of an asset, without shifting the consideration of the uncertainty surrounding the conditional rights from recognition to measurement?

No, as noted in our cover letter, we believe that the recognition of any asset, including an intangible asset, is conditional on meeting the general definition of probable future economic benefit.
Contingent Liabilities

Question 5: Do you agree with eliminating the notion of contingent liability? If not, why not?

No, we do not agree with eliminating the notion of contingent liability. We support the current approach under SFAS No. 5 which requires recognition when a future sacrifice of economic benefits is probable. We believe that the current disclosure requirements for contingent liabilities should provide sufficient decision-useful information to investors. As mentioned, the Board should consider both the comments received and its deliberations on its project on Uncertain Tax Positions.

Question 6: Do you agree with the IASB’s analysis of unconditional and conditional obligations in contractual settings, as summarized in paragraphs 39 and 40 of this Invitation to Comment and paragraphs BC24-BC28 of the IASB Exposure Draft? If not, why not?

No, while we agree that liabilities related to warranties and guarantees can be analyzed in terms of their unconditional and conditional obligations, we believe that these particular liabilities lend themselves to such analysis. There are businesses that provide the service of standing ready for warranty work and for financial guarantees. These businesses are able to provide such services because they aggregate potential obligations to provide statistically valid estimates of the probability of occurrence which are readily measured and recognized as liabilities of these businesses. Other liabilities, such as an obligation to defend a lawsuit, are not subject to the same analysis, and we believe that recognition is only useful to investors when the future sacrifice of economic benefits is probable.

Question 7: If you answer yes to Question 5, do you agree that the IASB has appropriately applied the notion and supporting reasoning referred to therein in the analysis of the example in paragraph 41 of this Invitation to Comment? If not, why not?

Our answer to Question 6 is no. As noted in our response to Question 6, we believe that the notion of probability is fundamental to recognition of a liability. Further, as noted in our cover letter, we do not believe that a reliably measurable amount can be determined for all legal claims upon assertion.

Probability Recognition Criteria

Question 8: Do you agree with omitting the probability criterion for recognition of nonfinancial liabilities? If not, why not?

No, we do not agree. We believe that to produce meaningful and reliable financial statements, the probability of the future sacrifice of economic benefits must be considered in recognizing liabilities.
Question 9: Do you agree with the proposed measurement requirements for nonfinancial liabilities? If not, why not?

No, we are concerned about the broad-based application of the probability weighted cash flow method. We believe that this method will result in estimates with no more reliability than the current best estimate method. The proposed method will require more work and may give the appearance of precision when, in fact, it is no more fact based and equally dependent on considerable management judgment. The Board needs to carefully study the proposed measurement requirements through field visits.