THE PEPSI BOTTLING GROUP

THOMAS M. LARDIERI
VICE PRESIDENT AND CONTROLLER

FSPFAS157C

February 7, 2008

LETTER OF COMMENT NO. 11

Mr. Russell G. Golden
Director of Technical Application and Implementations Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Subject: File Reference Proposed FSP FAS 157-c
Proposed FASB Staff Position No. 157-c, "Measuring Liabilities under FASB Statement No. 157"

Dear Mr. Golden and Board Members:

The Pepsi Bottling Group, Inc. appreciates the opportunity to comment on the proposed FASB Staff Position (FSP) No. 157-c, "Measuring Liabilities under FASB Statement No. 157." We support the FASB's efforts to establish and improve standards of financial accounting and for the guidance and education of the public and, to that end, we are providing our comments.

PBG is pleased the FASB is being responsive to its constituents' requests for guidance on liability measurement. We believe additional guidance would be helpful to ensure that fair value measurements of liabilities in general are more consistent. We also believe that the recent developments in U.S. GAAP have made additional guidance on liability measurement necessary.

Implementation Guidance Needed

While we agree with the general principles of the guidance provided, we believe illustrative examples are necessary to provide practical implementation guidance for various types of liabilities. Specifically, we believe entities are looking for practical implementation guidance for determining the fair value of the following:

- Contingent liabilities (and assets) as required by FAS 141(R)
- Financial liabilities not traded on an active market
- Liabilities newly transferred from another entity
- Nonfinancial liabilities

Implementation guidance is especially important given that the overarching principles in the proposed FSP are stated in the most generalized terms. We recognize the desire to develop principle-based accounting standards, however, without meaningful implementation guidance for areas subject to a high degree of judgment, such as fair values of non-traded liabilities, general statements of principle serve only to curb the most egregious abuse scenarios and provide endless opportunities for companies, auditors, and the SEC to argue over who is "more righteous" in applying the principles.

THE PEPSI BOTTLING GROUP 1 PEPSI WAY, SOMERS, NY 10589 PHONE: (914) 767-6560 FAX: (914) 767 1313

Other Suggestions
PBG believes it would also be helpful to clarify the statement in paragraph 15 of FAS 157 that "nonperformance risk relating to that liability is the same before and after its transfer." We believe it would be helpful to clarify that in cases where companies assume liabilities through a business combination, the subsequent obligor measures the liability considering its nonperformance risk, not that of the prior obligor.

In reading the proposed FSP, we noticed that the wording of paragraphs 7 and 15B could be interpreted to infer that other measurement options that have not been discussed could be used. Specifically, the first two sentences of paragraph 7 and the amendment to FAS 157 designated as paragraph 15B, state:

> In the absence of a quoted price for the identical liability in an active market, the reporting entity ***may*** measure the fair value of its liability at the amount that it would receive as proceeds if it were to issue that liability at the measurement date. A reporting entity shall evaluate fair value inputs and prioritize observable inputs over unobservable inputs in determining ***whether it should use*** the amount that it would receive as proceeds if it were to issue that liability at the measurement date. [Proposed FSB FAS 157-c, paragraph 7, ***emphasis added.***]

Our understanding of the proposed guidance is that it creates a two-step measurement hierarchy. The first tier is to use a quoted market price for the identical liability in an active market if one is available. The second tier is to measure the fair value of the liability at the amount the entity would receive as proceeds if it were to issue that liability at the measurement date if no quoted market price for the identical liability in an active market exists. When using the second tier, observable inputs are preferable to unobservable inputs for determining the amount the entity would receive as proceeds if it were to issue the liability at the measurement date.

We propose that the words "whether it should use" be deleted to avoid confusion of inferring an alternative method of measurement.

Guidance for Contingent Liabilities (and assets)
We do not believe the guidance provided for liability measurement can be applied in a practical manner when measuring the fair value of contingent liabilities as required in FASB Statement No. 141(R), *Business Combinations,* (FAS 141(R)). Prior to issuance of FAS 141(R), the acquiring entity in a business combination used the guidance in FASB Statement No. 5, *Accounting for Contingencies,* (FAS 5) to account for all contingencies incurred as a result of the business combination transaction. FAS 5 required that it must be probable that one or more future events will occur confirming the facts of a loss in order to recognize a loss contingency. However, the provisions of FAS 141(R) apply to all contractual contingencies, regardless of the probability of occurrence.

FAS 141(R) does not provide specific guidance on the measurement of contractual contingencies. The guidance in FAS 141(R) eliminates the notion of probability when recognizing contractual contingencies. We believe it would be helpful to have implementation guidance to assist preparers in understanding the acceptable fair value methodologies for contingent assets and liabilities. Such guidance should include illustrative examples demonstrating how to reflect probability assumptions

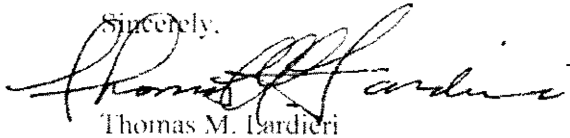
when measuring the fair value of contingent obligations. This is especially important in cases where an entity does not have historical experience that it may draw upon when estimating settlement probabilities with similar types of contingencies.

Our concern is that, without further guidance on measuring contractual contingencies the quality of financial reporting will be eroded. The Board's stated intention is to improve completeness of financial reporting. However, the solution goes beyond that. Requiring recognition of contingencies without proper measurement guidance may have the unintended consequence of overstatement (or under) of contingent assets and contingent liabilities, coupled with inconsistent measurement of those items. Without more guidance in this area companies will each develop their own measurement methodologies resulting in inconsistencies and errors in measuring the fair value of contingencies. PBG respectfully requests that the Board provide guidance to address the unique considerations required for measuring contractual contingencies at fair value.

In summary, PBG agrees with the Board's proposed guidance for measuring the fair value of liabilities when a quoted price in an active market exists for the liability. We believe the Board has chosen appropriate principles for liability measurement. However, we believe additional guidance is needed to measure the fair value of contingencies and non-traded liabilities, and that illustrative examples are needed for all guidance provided.

Thank you for considering our comments. We hope they prove useful in supporting the Board within its mission. We would be happy to discuss our comments and suggestions further if the Board would find it helpful. You may contact me at 914-767-6560.

Sincerely,



Thomas M. Bardieri

:jd