

ANDREA L. FORSTER
VICE PRESIDENT AND CONTROLLER

January 17, 2007

Mr. Lawrence Smith
Chairman of the Emerging Issues Task Force
Financial Accounting Standards Board
404 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

***Subject: File Reference No. EITF0610
EITF Issue No. 06-10, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements"***

Dear Mr. Smith:

The Pepsi Bottling Group, Inc. appreciates the opportunity to comment on the Emerging Issues Task Force's draft abstract, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements." We support the Task Force's mission to assist the FASB in improving financial reporting through the timely identification, discussion, and resolution of financial accounting issues within the framework of existing authoritative literature and, to that end, we are providing our comments.

PBG agrees with the Task Force's tentative consensus that an employer should recognize and measure an asset based on the nature and substance of the collateral assignment split-dollar life insurance arrangement. However, we believe it would be helpful to clarify in the example provided within the draft abstract that the asset should be measured at the lesser of the cash surrender value of the policy or the employer's loan in cases where the cash surrender value is greater than the amount owed to the employer.

PBG disagrees with Task Force's tentative consensus that an employer should recognize a liability for all collateral assignment split-dollar life insurance arrangements in accordance with either Statement 106 (if, in substance a postretirement benefit plan exists) or Opinion 12 (if the arrangement is, in substance, an individual deferred compensation contract). We can support recording a liability in situations where the employer is guaranteeing a minimum death benefit to the employee's estate. Absent such a guarantee, there is no future obligation on the employer's part.

In our specific collateral assignment split-dollar life insurance arrangement, we made a collateral loan to an employee's trust to purchase life insurance on behalf of the employee. The employee's trust signed a promissory note for the amount of the loan. We expect to recover the loaned amount and an acceptable rate of return. Like many other collateral split dollar arrangements, we do not guarantee a minimum death benefit to the employee's estate.

In this situation, we believe the economic substance of the collateral assignment split-dollar life insurance arrangements is more consistent with a defined contribution plan than a defined benefit postretirement plan, as contemplated by the draft abstract. We would not consider the collateral assignment split-dollar life insurance arrangement to be a postretirement benefit under FAS 106 as we (the employer) do not promise a minimum death benefit to the employee's estate. Nor would we compare this arrangement to a deferred compensation contract as described in Opinion 12 because we (the employer) have no contractual obligation to provide any further compensation to the employee. Further, in our specific situation, neither PBG nor the employee is required to pay any future premiums to prevent the policy from lapsing.

Based on this assessment we believe the proper accounting for the collateral assignment split-dollar life insurance arrangement is to record an expense for any portion of the cash provided, if we are unable to recover our loan and the accrued interest on that loan. We believe it is inappropriate to record additional cost for the present value of the death benefits to be paid by the insurance carrier as this cost will never be borne by us.

One way to test the economic substance of an arrangement is to look for unintended consequences. If the draft abstract were ratified as it is currently written, an employer who purchased a single premium life insurance policy and gave it to an employee, would simply recognize an expense for the cost of the single premium. However, if the employer utilized a collateral assignment agreement to try to recoup some of that cost the employer would have to recognize a substantial liability for the present value of the death benefits even though the insurance company is the party obligated to pay those benefits. When these arrangements are viewed as a defined contribution plan, no such accounting inconsistency exists.

One of the fundamental differences between an endorsement split dollar arrangement and a collateral split dollar arrangement is the ownership of the policy. Ownership and control of an asset is the ultimate significant differentiating factor. It establishes whether or not we record the asset. Even if ownership and control of the life insurance policy is the only difference between an endorsement arrangement and a collateral arrangement, the arrangements are significantly different from each other.

FASB Statement of Concepts No. 6, *Elements of Financial Statements*, defines liabilities as "probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events." In a collateral assignment split-dollar life insurance arrangement the employer has no future liability under this definition. Unless the employer guarantees a minimum death benefit the employer has sacrificed all the economic benefits required of it at the outset of the transaction and has no further obligations to the employee or the insurance company. The employer only has an asset, the loan receivable.

Another unusual accounting result is the requirement for the employer to immediately record a liability and expense for the present value of the cost, only to amortize the liability to income over the life expectancy of the employee. That would materially overstate liabilities and income consistently for the duration of the employee's life expectancy. As noted above, if the employer were to guarantee a minimum death benefit it would change this assessment.

PBG does not believe it is the Task Force's intention to require companies to overstate liabilities and income. However, this would be another unintended consequence of adopting the draft abstract in its current form. We respectfully request the Task Force to reexamine its tentative conclusion on this issue and amend its next draft to eliminate these accounting inconsistencies.

Transition

PBG does not believe the Task Force's tentative conclusion on Issue 1 improves financial accounting. However, if the Task Force decides to retain its current position, and the Board chooses to ratify the abstract, we would suggest providing guidance on liability recognition and amortization for transition purposes.

Thank you for considering our comments. We hope they prove useful in supporting the Task Force within its mission. We would be happy to discuss our comments and suggestions further if the Task Force or the Board would find it helpful. You may contact me at 914-767-7668.

Sincerely,

Andrea Forster

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