PEPSICO

February 26, 2007

Ms. Nancy M. Morris
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: File Number S7-24-06 Proposed Interpretative Guidance – Management's Report on Internal Control Over Financial Reporting

Dear Ms. Morris:

We appreciate the opportunity to comment on the SEC's proposed interpretative guidance. We support the SEC and PCAOB's efforts to continuously enhance the guidance available to companies and auditors in this complex and challenging area.

<u>Proposed Interpretive Guidance</u>

1. Will the proposed interpretive guidance be helpful to management in completing its annual evaluation process? Does the proposed guidance allow for management to conduct an efficient and effective evaluation? If not, why not?

The interpretative guidance will be helpful to management for a number of reasons. First, the guidance provides management with the ability to exercise its judgment in applying a top-down risk based approach. Secondly, the guidance appears flexible enough to encompass different attributes including company size, complexity, industry, areas of risk, etc. Lastly, the initial application of the Section 404 rules was difficult for companies as the only guidance available to management was the Sarbanes-Oxley Act, the COSO framework and the auditing standards. Designing controls and effectively testing them requires significant judgment, however, AS2 was more prescriptive in nature. Overall, we believe that the proposed guidance will allow management to conduct an efficient and effective evaluation.

2. Are there particular areas within the proposed interpretive guidance where further clarification is needed? Is yes, what clarification is necessary?

No, we believe that the proposed areas do not require clarification. As discussed on page 16, the proposed guidance details two broad principles. The first principle is that management should evaluate the design of the controls that it has implemented to determine whether they adequately address the risk that a material misstatement in the financial statements would not be prevented or detected in a timely manner. The second principle states that management's evaluation of evidence about the operation of its controls should be based on its assessment of risk. With these objectives clearly stated, we feel that we will be able to eliminate duplication or unnecessary procedures as we will be able to focus our work on the areas that are of the greatest risk of a material misstatement.

3. **Are there aspects of management's annual evaluation process that have not been addressed by the proposed interpretive guidance that commenters believe should be addressed by the Commission? If so, what are those areas and what type of guidance would be beneficial?**

   We believe that the proposed guidance includes all relevant aspects of management's annual evaluation.

4. **Do the topics addressed in the existing staff guidance (May 2005 Staff Guidance and Frequently Asked Questions (revised October 6, 2004)) continue to be relevant or should such guidance be retracted? If yes, which topics should be kept or retracted?**

   We believe that the topics addressed in the existing staff guidance continue to be relevant although there may be overlap of certain concepts. Utilization and access to all available resources on this topic is helpful to management's implementation. However, we believe the previous guidance and FAQ should be revised as necessary when the final interpretative guidance is issued.

5. **Will the proposed guidance require unnecessary changes to evaluation processes that companies have already established? If yes, please describe.**

   No, we do not believe so as many companies have already determined an approach that encompasses a focus on accounts and areas that possess the most risk of material misstatement. We believe that there has been and there continues to be an opportunity to review the process and enhance the efficiency and effectiveness of the annual evaluation.

   While we do not believe there will be any unnecessary changes, we do believe that registrants need to consider the interaction between entity-level controls and financial reporting elements. The guidance states "the more indirect the relationship to a financial reporting element, the less effective a control may be in preventing or detecting a misstatement". It is likely that companies have not fully taken advantage of this relationship in the assessment and duplicate documentation and testing may have occurred. As a result, some companies may be able to reduce the number of key controls identified and ultimately tested, however, this should not be viewed as a "one size fits all" fix.

6. **Considering the PCAOB's proposed new auditing standards, <u>An Audit of Internal Control Over Financial Reporting that is Integrated with an Audit of Financial Statements</u> and <u>Considering and Using the Work of Others In an Audit,</u> are there any areas of incompatibility that limit the effectiveness or efficiency of**

an evaluation conducted in accordance with the proposed guidance? If so, what are those areas and how would you proposed to resolve the incompatibility?

Although we did not note any inconsistencies in topics between the PCAOB's auditing standards and the SEC's interpretative guidance, it does appear that the PCAOB's proposed auditing standards are more detailed.

7. Are there any definitions included in the proposed interpretive guidance that are confusing or inappropriate and how would you change the definitions so identified?

We did not find any definitions that were confusing or inappropriate.

8. Will the guidance for disclosures about material weaknesses result in sufficient information to investors and if not, how would you change the guidance?

We agree that sufficient disclosure surrounding the existence of a material weakness is extremely important. The proposed guidance suggests certain areas that management should consider disclosing. We believe that if a material weakness is identified, the following information should be required for disclosure:

- A description of the material weakness;
- The control(s) that failed;
- The qualitative impact on the financial reporting and the control environment;
- A range, if estimable, of the impact on the financial statements; and
- Management's action plans to remediate including related timeframes.

9. Should the guidance be issued as an interpretation or should it, or any part, be codified as a Commission rule?

The guidance should be codified as a Commission rule required for all filers.

10. Are there any considerations unique to the evaluation of ICFR by a foreign private issuer that should be addressed in the guidance? If yes, what are they?

We know of no considerations unique to the evaluation of the ICFR by a foreign private issuer.

<u>Proposed Rule Amendments</u>

11. Should compliance with the interpretive guidance, if issued in final form, be voluntary, as proposed, or mandatory?

We believe that the interpretative guidance should be mandatory. As stated earlier, we do not believe that a substantive change in management's process will result from the implementation of the new guidance.

12. Is it necessary or useful to amend the rules if the proposed interpretive guidance is issued in final form, or are rule revisions unnecessary?

We do not believe it is necessary or useful to amend the rules.

13. Should the rules be amended in a different manner in view of the proposed interpretive guidance?

No, see our response to #12.

14. Is it appropriate to provide the proposed assurances in Rules 13a-15 and 15d-15 that an evaluation conducted in accordance with the interpretive guidance will satisfy the evaluation requirement in the rules?

No, we believe that the assurance in the Rules will be satisfied by applying the interpretative guidance once issued.

15. Does the proposed revision offer too much or too little assurance to management that it is conducting a satisfactory evaluation if it complies with the interpretive guidance?

We believe the proposed rules provide the appropriate level of assurance to management.

16. Are the proposed revisions to Exchange Act Rules 13a-15(c) and 15d-15(c) sufficiently clear that management can conduct its evaluation using methods that differ from our interpretive guidance?

Yes, the proposed revisions to Exchange Act Rules are sufficiently clear.

17. Do the proposed revisions to Rules 1-02(a)(2) and 2-02(f) of Regulation S-X effectively communicate the auditor's responsibility? Would another formulation better convey the auditor's role with respect to management's assessment and/or the auditor's reporting obligation?

Yes, the proposed revisions will clarify the auditor's responsibilities with respect to whether management's assessment of the effectiveness of the ICFR is fairly stated. There should be alignment between the revisions to the Rules and the PCAOB's standard, specifically, the illustrative wording of the auditor's opinions.

18. Should we consider changes to other definitions or rules in light of these proposed revisions?

No, we do not believe other changes are needed.

19. The proposed revision to Rule 2-02(f) highlights that disclaimers by the auditor would only be appropriate in the rare circumstance of a scope limitation. Does this adequately convey the narrow circumstances under which an auditor may disclaim an opinion under our proposed rule? Would another formulation provide better guidance to auditors?

Yes, this revision is clear and conveys the message that disclaimers are very rare.

<u>Cost-Benefit Analysis</u>

20. With increased reliance on management judgment, will there be unintended consequences?

We do not believe that there will be unintended consequences with increased reliance on management's judgment.

We believe that the SEC should finalize the issuance of the proposed interpretative guidance so that it will be effective for 2007 audits. In order to effectively implement the new interpretative guidance, it must be issued and effective no later than June 30, 2007 to enable the planning process to incorporate the new requirements. We are concerned that if this deadline is not met, the auditors will not be able to implement for the 2007 year-end.

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 Bridgman.

Peter A. Bridgman

cc: Marie T. Gallagher, Vice President & Assistant Controller