April 1, 2005

Mr. William H. Donaldson, Chairman
U.S. Securities and Exchange Commission
450 Fifth Street N.W.
Washington, D.C. 20549-0609

Re: File No. 4-497

Dear Mr. Donaldson:

We appreciate the opportunity to provide feedback regarding the implementation of Section 404 of the Sarbanes-Oxley Act (the "Act") relating to internal control over financial reporting. We are also encouraged by the Commission's interest in better understanding the concerns of America's business community.

PepsiCo, Inc. has actively supported the initiatives taken by the New York Stock Exchange and the Securities and Exchange Commission to enhance investor confidence. We believe adoption of the Act has improved our processes resulting in standardization of procedures and education around the importance of our overall control environment. However, we have the following suggestions as it relates to the Act:

1. The intent of Sarbanes-Oxley Section 404 is to prevent aggressive, fraudulent and manipulative financial reporting. The PCAOB standard is very focused on controls over transaction processing. While these controls are relevant and important, application of the standards results in disproportionate reliance on transactional controls versus entity-wide controls. Entity-wide controls, if executed effectively, are critical to ensuring that financial statements are not materially misstated. To more align the approach with that of the intent of the underlying legislation, the PCAOB should re-balance its effort to incorporate more emphasis on corporate "tone at the top", as well as measures to prevent and detect fraud.

2. The standards as published by the PCAOB are largely written as "rules" rather than "principles". As a result, the approach to implementation tends to focus on adherence to detailed standards. The intent of the legislation as written is lost when reduced to a set of rules without considering the broader, more conceptual principles originally envisioned. A substantial part of the work in complying with SOX 404 is tied into rigid interpretations by the independent registered public accounting firms of some very rules-based pronouncements. This has had the effect of diminishing the role of professional judgment in the independent registered public accounting firms' determination of control adequacy.

3. As the PCAOB standard is currently defined, each year's efforts to support management's as well as the independent registered public accounting firm's certification must be considered by itself; no reliance can be placed upon the internal controls work to support the financial statement opinion. Given that internal controls are a process, greater reliance should be allowed on an effective system of control to reduce the work necessary for a financial statement assessment.

4. We understand that the independent registered public accounting firms are informing their clients that review of application functionality may be required on an annual basis even if no system changes have occurred in order to comply with AS No. 2, unless further guidance on this matter is provided by the PCAOB. We believe the independent registered public accounting firms should be able to place reliance on work performed in prior years where such work is still relevant. For example, if application functionality is tested during implementation of a new system, it would only seem necessary to test changes in subsequent periods, assuming the independent registered public accounting firms and the company have satisfactorily tested information technology general controls (including program change controls). This approach is a long established, widely accepted practice in use in audits of service providers under Statement on Auditing Standards No. 70, as well as audits of information controls in conjunction with audits of financial statements.

5. The PCAOB rules have limited or even precluded independent registered public accounting firms from giving guidance to their clients on accounting issues. In an over-interpretation of rules seeking to preserve auditor independence, the current situation has independent registered public accounting firms advising clients not to seek any guidance from them on accounting treatment. If the independent registered public accounting firm later disagrees with the client treatment, any resulting adjustment can be interpreted as a deficiency or even a material weakness. The unintended result of the PCAOB rules is to render the considerable expertise of the independent registered public accounting firm inaccessible to their clients.

6. There is an SEC requirement for independent registered public accounting firms to report all significant communications with senior management to the audit committee. Independent registered public accounting firms have interpreted this to include the PCAOB request to report all deficiencies identified regardless of significance. This requirement conflicts with the business requirements of reporting significant deficiencies and could result in information overload for audit committee members.

7. Our final point does not relate to the rules as written, but to how they will be enforced by the PCAOB in 2005. The independent registered public accounting firms are very conscious of the PCAOB's inspection process. The rigid interpretation of the "rules" that we have so far observed from the independent registered public accounting firms, and their corresponding reluctance to use judgment or attempt to identify "principles", appears driven by their expectations of the application of the PCAOB's own rigid interpretation of such rules during the inspection process. We strongly believe the PCAOB needs to recognize that this is the first year of SOX 404, and rules and guidelines were being issued up to the last minute, and accordingly the PCAOB should look to the substance of the work performed. Put another way, the PCAOB should set an example of looking more to the "principles" and less to a rigid implementation of the "rules". We are concerned that if the PCAOB reviews do take a rigid "rules" based approach, it will be very difficult for companies in the future to strike a reasonable balance with their independent registered public accounting firms.

Thank you for your consideration of our views. We would be pleased to discuss any questions you may have. We are also considering attending the roundtable discussion the SEC has scheduled for April 13, 2005 and would be happy to discuss our views and suggestions in greater detail at that time.

Sincerely,

cc: Marie Gallagher – PepsiCo, VP & Assistant Controller
Tom Lardieri – PepsiCo, VP & General Auditor
Larry Leva – KPMG
Indra Nooyi – PepsiCo, President and CFO