

Merck & Co., Inc.
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January 6, 2003

Ms. Suzanne Q. Bielstein
Director of Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Letter of Comment No: 122

File Reference: 1125-001

Date Received: 1/6/03

Re: File Reference No. 1125-001

Dear Ms. Bielstein:

Merck & Co., Inc. is a New Jersey based corporation with its principal place of business at One Merck Drive, P.O. Box 100, Whitehouse Station, New Jersey 08889-0100. The Company is a global research-driven pharmaceutical products and services organization that discovers, develops, manufactures and markets a broad range of innovative products to improve human and animal health and provides pharmacy benefit management services. We are pleased to respond to the request for comment by the Financial Accounting Standards Board (the "FASB") on its proposal for a "*Principles-Based Approach to U.S. Standard Setting*" (the "Proposal").

We support, in concept, the issuance of broad, principles-based accounting standards that focus on the economic substance of transactions rather than their form. Such an approach would reduce the complexity of the standards and diminish the need for extensive interpretive and implementation guidance, as was the outcome of the rules-focused approach of FAS 133 as cited in the Proposal. Further, the lack of principles-based guidance in areas such as revenue recognition, at times results in the application, by analogy, of rules to transactions that were not anticipated when the rules were initially developed. The resulting accounting treatment may therefore diverge from the underlying intent of the guidance. Accordingly, we believe that a comprehensive body of well-grounded principles-based standards will provide a flexible framework with which to respond more efficiently to evolving marketplace demands.

An integrated, comprehensive conceptual framework will serve as the cornerstone for the successful promulgation and implementation of principles-based standards. The existing conceptual framework has been criticized as an inadequate tool for addressing accounting and reporting needs due to internal inconsistencies, ambiguities and/or incompleteness. For example, conflicts inherent in the conceptual guidance on revenues and liabilities set

forth in Concepts Statement No. 5, "*Recognition and Measurement in Financial Statements of Business Enterprises*," and Concepts Statement No. 6, "*Elements of Financial Statements*," have proven problematic in certain recent FASB initiatives. Because of the fundamental importance to the project of a sound conceptual framework, one of the staff's primary objectives must be to review the existing conceptual framework to identify and address issues of content, consistency and clarity.

The delineation of a new, simplified standards-setting model is another critical objective. This model should define the attributes of a principles-based standard, including linkage to the conceptual framework. The FASB should be the primary party responsible for setting, and ensuring the consistency of, the scope and content of any interpretive and implementation guidance. In order to effectively limit the need for such guidance on a post-issuance basis, it will be incumbent upon relevant participant groups to be actively engaged in the standards-setting process. Once a conceptual framework has been developed and a standards-setting model established, the principles-based approach should be first applied to then-current FASB agenda items. This provides the most flexible pilot environment for all participants and the least disruptive form of transition.

A shift to principles-based accounting standards will require a fundamental change in behavior by financial statement preparers, users, auditors, and regulators alike, as all parties strive to ensure that accounting conclusions are reasonable, supportable and consistently applied. We commend the FASB for the open forum they are providing on this initiative and encourage the staff to continue to engage in frequent dialogue with all constituents in order to confirm whether a principles-based approach will be fully embraced by all participants in the U.S. reporting process. We encourage the staff, with constituent input, to develop a well-defined action plan articulating project phases, objectives, required resources, timetables and transition periods in order to achieve consensus and ensure that the project status can be appropriately assessed and redirected, if necessary.

Thank you for the opportunity to provide comments on the Proposal. We would be pleased to discuss our views with you at your convenience.

Sincerely,

/s/ Richard C. Henriques

Richard C. Henriques
Vice President, Controller
Merck & Co., Inc.