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April 13, 2004

Ms. Suzanne Q. Bielstein
Director of Major Projects and Technical Activities
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File Reference Nos.

- **1200-100: Exposure Draft *Inventory Costs, an amendment of ARB No. 43, Chapter 4***
- **1200-300: Exposure Draft *Exchanges of Productive Assets an amendment of APB Opinion No. 29***
- **1200-400: Exposure Draft *Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3***

Dear Ms. Bielstein:

Pfizer Inc. appreciates the opportunity to respond to the proposed Statements of the Financial Accounting Standards from the short-term international convergence project with the International Accounting Standards. We fully support the FASB's objective in this project to seek convergence with the IASB to enhance comparability of U.S. GAAP and IFRS accounting guidance through the use of a single set of high-quality accounting standards.

Pfizer Inc. is a research-based global pharmaceutical company that discovers, develops, manufactures, and markets innovative medicines for humans and animals, as well as many of the world's best-known consumer products. For 2003, total revenues and assets exceeded $45 billion and $116 billion, respectively.

Notwithstanding our full support for the short-term international convergence project, we do have concerns regarding certain requirements contained in the aforementioned Exposure Drafts that are expressed in further detail below.

Inventory Costs

We strongly disagree with the proposed requirement that fixed overhead variances resulting from production below normal levels or idle plant should be recognized in earnings in the period in which

they are incurred. This would be a significant departure from current practice under U.S. GAAP. Given frequently changing production schedules, such a practice could considerably increase variability in earnings in periods of planned production shutdowns, particularly on a quarter to quarter basis. Such a change would also require considerable process and system modifications to monitor and report variances in this manner. The complexity of such a system for a large, multinational company with production operations worldwide would involve a significant amount of time and money to develop, which may not be justified and ultimately, we do not believe would significantly improve the quality of our financial statements nor enhance their relevance to the investing public.

Further, one of the reasons for drafting this Statement is to improve financial reporting by eliminating the inconsistency associated with the application of the "so abnormal" criterion from inventory pricing guidance. However, by specifying that fixed production overhead is allocated based upon "normal" capacity, there still exists the possibility that "normal" will be defined and applied inconsistently across companies. This could lead to the same potential abuses that the Statement seeks to eliminate. We believe current practice is appropriate unless further justification is provided and discussed via the Board's full due process.

Exchanges of Productive Assets

We do not believe that this proposed Statement, which would permit gain recognition from nonmonetary exchanges of productive assets, should be pursued at this time. We believe this issue should either be deferred or included in the FASB/IASB's Revenue Recognition project as the Board has recently decided that the general standard for revenue recognition will supersede existing guidance as in APB Opinion No. 29, *Accounting for Nonmonetary Transactions*. Given the dependence on the Revenue Recognition project, we believe this issue should be deferred.

However, if the Board elects to pursue this Statement, we are concerned about the use of the term "commercial substance" as the means by which to determine whether fair value should be used to account for the transaction. Implementation guidance should be provided with specific examples.

Accounting Changes and Error Corrections

We are particularly concerned with the potential consequences of the proposed requirement of retrospective application for changes in accounting principle for all financial statements presented, unless it is impracticable to determine the period-specific effects of an accounting change on one or more prior periods presented.

Given the recent corporate scandals in some of the largest and well-known companies in the United States, the level of investor confidence and trust in corporate accounting and reporting practices has sharply declined. Investors are increasingly skeptical and the market can be unforgiving. We are concerned that investors may not be able to clearly differentiate between a restatement resulting from an error versus a restatement required by retroactive application of a change in accounting principle. This inability to distinguish between different types of changes could negatively impact both a company's stock price as well as the market.

Even more disconcerting is the potential for the loss of investor confidence in our financial reporting model. Users of financial statements make investment decisions based on those financial statements every day. Will investors have enough faith in a financial reporting model which changes the financials they relied upon in making those investment decisions?

Similar concerns were expressed in APB 20, *Accounting Changes*, which states that "although the two conflict, both (a) the potential dilution of public confidence in financial statements resulting from restating financial statements of prior periods and (b) consistent application of accounting principles in comparative statements are important factors in reporting a change in accounting principle." Clearly, these still exist today and would continue to exist with only a retrospective approach.

Current practice of recording the cumulative effect helps an investor to isolate and better understand the change as well as its implications. Additionally, the tremendous level of effort that could be required to restate prior years' results, particularly in the Financial Summary submitted to the Securities and Exchange Commission, does not provide the investor with sufficient benefit to warrant the costs to companies. Therefore, we believe that the current cumulative effect approach based on a retroactive computation of the change in accounting principle with recognition in net income in the period of the change is a better alternative than the proposed retrospective approach. Certainly there will continue to be specific changes in accounting principle that should be reported by restating the prior period financial statements because the advantages of retroactive application outweigh the disadvantages. The Board should utilize the retroactive transition guidance for new pronouncements when it is determined through due process that it is the most appropriate approach for the particular change.

We would be happy to discuss our views with you and the staff of the FASB at your convenience.

Very truly yours,

Loretta V. Cangialosi

Loretta V. Cangialosi
Vice President and Controller

cc: Mr. D.L. Shedlarz, Executive Vice President and Chief Financial Officer