

Corporate Finance  
Pfizer Inc.  
235 East 42<sup>nd</sup> Street  
New York, NY 10017-5755  
Tel 212 573 3222 Fax 212 338 1815  
Email Loretta.v.cangialosi@pfizer.com

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**Loretta Cangialosi**  
Vice President and Controller  
Accounting Services

March 29, 2002

Mr. Timothy S. Lucas  
Director of Research and Technical Activities  
Financial Accounting Standards Board  
401 Merritt 7  
Norwalk, CT 06856-5116

**Subject: Proposal for a New Agenda Project – ISSUES RELATED TO THE  
RECOGNITION OF REVENUES AND LIABILITIES**

Dear Mr. Lucas:

Pfizer Inc appreciates the opportunity to express its views on the Proposal for a New Agenda Project, "Issues Related to the Recognition of Revenues and Liabilities" dated January 28, 2002.

Pfizer discovers, develops, manufactures, and markets leading prescription medicines for humans and animals, as well as many of the world's best-known consumer products. The Company had global revenues of approximately \$32 billion in 2001.

While our comments in the attached response will provide a more detailed rationale for our views, in summary, we support the addition of this project to the FASB agenda for the following reasons:

- We believe that the issuance of a comprehensive general standard on revenue recognition, closely aligned with FASB's Concepts Statements, should result in improved consistency and comparability in financial reporting. The range and complexity of revenue and liability recognition issues confronting preparers, auditors and users of financial statements are significant. We are afraid that, without the FASB's leadership role in this area, we could see further erosion of investor confidence in the consistency, comparability and representational faithfulness of published financial statements. And, unfortunately, we have had several severe reminders in the last few months about how important this confidence is to the stability of the U.S. and world markets.
- We believe that the development of a general standard on revenue recognition and the improvement of the conceptual guidance for liability recognition under the FASB's open, collaborative process will help ensure that the best solutions are obtained and that more participants will accept and understand the final guidance. Prior guidance has been issued without the due process safeguards that are characteristic of the FASB's decision-making process. Instead, in the last few years, many of the revenue and liability recognition issues have been taken up by the SEC or Emerging Issues Task Force (EITF). Neither of these groups are designed or organized in a manner to facilitate a full and fair hearing of all issues and points-of-view.
- We believe that this project, if performed in coordination with the International Accounting Standards Board (IASB), would advance the important cause of international harmonization. We note that the IASB and other standard setting organizations consider revenue and liability recognition issues to be important elements of the international harmonization effort. We would like to see the FASB take a leadership role in the development of these standards.

We agree with the FASB that in this new economy, financial reporting and disclosures should maintain the highest degree of integrity, quality and transparency in order to make them more beneficial to the investor. Further, we firmly support efforts to improve the financial reporting methods, especially those in coordination with the IASB.

Given that revenue recognition is the "single largest category of financial statement restatements," we encourage the FASB to act with urgency and, if necessary, to separate some of the liability issues into a discrete project.

Attached, we have provided our responses to the specific questions posed in the Request for Comments.

Very truly yours,

Loretta V. Cangialosi  
L.V. Cangialosi  
Vice President and Controller

cc:

David L. Shedlarz  
Executive Vice President and Chief Financial Officer

Alan G. Levin  
Vice President – Finance

## Attachment

### Response to Proposal to Add *Issues Related To The Recognition of Revenues And Liabilities* to the FASB Agenda

**Issue 1: Is there a need for the FASB or others to comprehensively address issues associated with the recognition of revenues and liabilities? If yes, should the FASB take on such an effort or defer to others? If so, to whom?**

In general, we feel that there is a need to comprehensively address issues associated with the recognition of revenues and liabilities, and that the FASB is the appropriate body to take on such an effort.

- The lack of a general standard on revenue recognition has led other bodies, such as the SEC and the EITF, to issue interpretive guidance or to make fundamental decisions about GAAP without the full due process that characterizes the FASB's decision-making process. We believe that the development of a general standard on revenue recognition and the improvement of the conceptual guidance for liability recognition under the FASB's open, collaborative process will help ensure that the best solutions are obtained and that more participants will accept and understand the final guidance.
- The inability of the EITF to reach a consensus on certain issues (e.g., revenue arrangements with multiple deliverables), even after extended deliberations, suggests that there are flaws in the current conceptual framework and that there is substantive inconsistency in practice. In fact, there are *known* conflicts in FASB's conceptual guidance between revenue recognition and liability recognition (e.g., recognition of deferred revenues where the liabilities definition would not be met) that must be corrected in order to minimize diversity of practice and misapplication of rules. We believe that the issuance of a comprehensive general standard on revenue recognition, closely aligned with FASB's Concepts Statements, should result in improved consistency and comparability in financial reporting. We believe that the FASB is in the best position to achieve this goal.
- There is a general agreement in the international accounting community that harmonization in the area of revenue and liability recognition is important. Given the importance, complexity and pervasiveness of the issues, we believe that the FASB must take a leadership role in that effort.

In order to expedite the process, we encourage the FASB to use the guidance set forth by the SEC in Staff Accounting Bulletin (SAB) No. 101, *Revenue Recognition in Financial*

*Statements*, and the companion document, *Revenue Recognition in Financial Statements – Frequency Asked Questions and Answers*, as a starting point for project deliberations.

In summary, we believe that this project satisfies all of the factors used by the FASB in agenda-making decisions (we cannot comment on available resources):

- It is a pervasive issue.
- There is much inconsistency in practice.
- A technically sound solution is achievable.
- The solution, with appropriate due process, is likely to be generally accepted.
- The project, if performed in conjunction with the IASB, will increase convergence of standards.

But, most importantly, given that revenue recognition is the “single largest category of financial statement restatements,” we encourage the FASB to act with urgency.

**Issue 2: Is the proposed scope of such a project as described in this proposal insufficient, appropriate, or too ambitious?**

The proposed scope of this project is generally appropriate (see also answer to Issue 3 below).

A comprehensive general standard on revenue recognition would address many of the revenue recognition issues that have arisen and provide guidance for addressing those issues that arise in the future. In addition, amending the guidance in the Concepts Statements to improve the criteria for recognizing revenues (and the conceptual guidance for liabilities) would result in a standard that is more transparent and less susceptible to manipulation. A rule-based standard, without sound underlying conceptual guidance, would have the potential to be abused through careful structuring of transactions to take advantage of the rules.

We note that the FASB will undertake the project in two distinct but interrelated phases that would be pursued simultaneously. One phase would take a “top-down” approach and focus on conceptual guidance. The other phase would take a “bottom-up” approach and focus on the detailed authoritative guidance and other accepted practices for revenue recognition. We are pleased that the FASB has taken this approach. However, given that revenue recognition is the “single largest category of financial statement restatements,” we encourage the FASB to urgently address the cause of these restatements as a first priority of the bottom-up phase. Further, given the need for such guidance, we would

also ask the FASB to consider “apportioning” the project into smaller pieces whereby decisions can be made and released to the public at certain interim dates. A project of this magnitude and complexity, undertaken in the traditional manner, may take several years to complete. But, financial statement preparers need this information more quickly than that.

**Issue 3: Should specific issues identified above or in the appendix be excluded from the scope of the proposed project? If yes, for each specific issue, please indicate whether it should be addressed as part of another FASB project, by others, or not at all and why.**

Possibly. Revenue recognition issues are complex, important and pervasive. Further, we believe that there is an urgent concern in the U.S. and world markets about these issues -- a concern that could actually threaten the stability of these markets. And, while we acknowledge the inter-relationships of revenue and liabilities, we are concerned about the FASB allocating resources in this project to “Issues Primarily Related to Liabilities.”

We believe that the issues and complexities concerning liability recognition are equally enormous and have seen evidence of this during the FASB’s work on asset impairment and disposal issues, asset retirement obligations and financial instruments – liabilities and equity. As such, we are concerned about the potential for the issues of “liability recognition” to absorb or divert significant resources that should be concentrating on revenue issues.

This is just a caution that the FASB should be careful to ensure that the project and its project elements are strictly and appropriated scoped.

If that cannot be accomplished in an efficient manner, perhaps the “Issues Primarily Related to Liabilities” should be addressed by the FASB in a separate project dedicated to developing a general standard on liability recognition (see also response to Issue 5 below).

**Issue 4: Should specific issues *not* identified above or in the appendix be addressed as part of the proposed project? If yes, please describe the specific issue and indicate why it is sufficiently crucial that it should be addressed as part of the proposed project.**

No. The proposed scope of this project is comprehensive, giving appropriate weight to concepts and rules, and should result in a standard that will increase comparability and consistency in financial reporting.

**Issue 5: Should the proposed project, in addition to developing a new, general accounting standard on revenue recognition and revising the related guidance on revenues and liabilities in Concepts Statements 5 and 6, develop a new, general accounting standard on liability recognition?**

No. A general accounting standard on liability recognition should not be included in this project. The proposed project should be limited to developing a general accounting standard on revenue recognition and revising related guidance on revenues and liabilities in Concepts Statements 5 and 6 (see also response to Issue 3 above.)

While many of the issues of revenue and liability recognition are interrelated, the pervasiveness of the issues surrounding liabilities and the difficulties the FASB has encountered reaching conclusions in projects such as asset impairment and disposal issues and asset retirement obligations suggest the need for a separate project that would result in a general accounting standard on liability recognition. We are also concerned that including this item will significantly decrease the “speed to market” of the major project.

In particular, certain “recurring themes” (listed below) should be addressed as part of a project to issue to a general standard on liability recognition.

- Legal versus constructive obligations
- Promissory estoppel
- Identification of past events that give rise to liabilities
- Whether FASB Statement No. 5, *Accounting for Contingencies* criteria would apply to recognition of certain obligations

The Board should consider incorporating the current project, *Obligations Associated with Disposal Activities*, into a project that would develop a general accounting standard on liability recognition.