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

Re: Response to Proposed Scope and Importance of Reporting Financial Performance and Disclosure About Intangibles

Dear Mr. Lucas:

Thank you for allowing Pfizer Inc. the opportunity to respond to the proposals to add projects to the Financial Accounting Standards Board's (FASB) agenda dealing with Reporting Financial Performance and Disclosure About Intangibles.

Pfizer Inc. is a research-based global pharmaceutical company that discovers, develops, manufactures, and markets innovative medicines for humans and animals. For the year ended December 31, 2000, total revenues and assets exceeded \$29 billion and \$33 billion, respectively.

While our comments in the attached response will provide a more detailed rationale for our views, in summary:

- On the topic of Reporting on Financial Performance, we believe that this project is an important, appropriate addition to the FASB agenda. We note that the International Accounting Standards Board (IASB) presently has a similar project on its agenda. We believe the FASB, and its constituents, would be well served by coordinating its efforts with those of the IASB. However, we would ask the FASB not to implement financial reporting standards that would limit, in any way, the flexibility of a company in conveying any financial measures that it deems meaningful to its investors, based on metrics that are specifically relevant to its particular set of circumstances.
- On the topic of Disclosure About Intangibles, we understand the FASB to be addressing those intangibles which are internally generated. We do not believe this project should be added to the FASB agenda at this time. Prior to undertaking the project, we suggest the FASB wait until a number of other projects currently

on its agenda are completed and/or until the results of their implementation have been fully analyzed.

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 and we firmly support efforts to improve the financial reporting methods, especially those in coordination with the IASB. Attached, we have provided our responses to the specific questions posed in the Proposals.

We would be happy to discuss our views with your staff.

Respectfully,

Loretta V. Cangialosi
Vice President and Controller
Pfizer Inc.

cc. David L. Shedlarz
Executive Vice President and Chief Financial Officer

Alan G. Levin
Vice President of Finance

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Response to Proposal to Add *Reporting Financial Performance* to the FASB Agenda

Project Summary:

The proposed project will attempt, at a minimum, to focus on the form and content, classification and aggregation, and display of specified items and summarized amounts on the face of all basic financial statements, both interim and annual. In addition, depending on project scope, topics to be considered might include, for example: identifying key financial measures and determining the appropriate method of calculation and display and/or providing guidance for distinguishing between operating and non-operating activities.

Scope of Project:

1. The "Minimum" approach would explore whether certain line items, subtotals, and totals should be defined in standards and required to be displayed in financial statements, including interim statements. Line items and amounts would include those related to metrics commonly used by investors and creditors in assessing financial performance (such as EBITA);
2. A "Broader" approach also involves determining how key financial metrics should be calculated if they are presented, but not requiring them in financial statements;
3. A "Still Broader" approach would require business enterprises to provide certain specific financial metrics, including ratios, in financial statements, in notes to financial statements or, perhaps, as supplementary information.

Comments:

Following are our responses to specific questions raised in the Proposal:

1. **Is there a need for the FASB or others to comprehensively address the reporting of information for assessing the financial performance of a business enterprise? If yes, should the FASB take on such an effort or defer to others? If defer to others, to whom?**

Yes. As noted in the proposal, taking on this project provides an opportunity for the FASB to coordinate its efforts with those of the International Accounting Standards Board (IASB) which has added a project on performance reporting to its agenda. We note the FASB's commitment to the goal of promoting international comparability of accounting standards and believe that this project represents a meaningful advancement of that effort. However, given the enormity of this project, we urge the FASB to be careful to ensure that the project and the project elements are strictly and appropriately scoped.

The proposal outlined three approaches for this project – "Minimum," "Broader" and "Still Broader." We generally support the Broader approach as it would encompass key

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elements of the Minimum approach, however, would not impose additional, and perhaps unnecessary reporting requirements of the Still Broader approach.

The Minimum approach, which aligns closely with the IASB project, seeks to bring consistency and conformity to line items, subtotals and totals used in the financial statements. As we have seen recently with the work of the EITF on sales deductions and the AICPA on PP&E cost capitalization, there is much inconsistency in practice - even under US GAAP. It is clear that the topic is relevant and already being addressed by numerous other accounting bodies. Our shared goal of achieving comparability on a worldwide basis encourages such a project. We support consistency and conformity of definition, however, we do not support a requirement that certain line items, subtotals, and totals be displayed in the financial statements. Management is responsible for the fair presentation of the financial statements and is in the best position to determine the most meaningful presentations.

The Broader approach adds the dimension of key financial metrics and ensuring that, if presented, they are calculated in a consistent manner. We support this scope expansion. However, a condition to our support is the assurance that certain key financial metrics are not required to be presented. We believe that the FASB's role should be to define key financial metrics that are commonly used in presenting and analyzing financial statements and that deviations from these definitions must be highlighted and explained. However, we believe that it is the responsibility of each company to ascertain the appropriate messages to be conveyed to its constituents and that this flexibility must be maintained.

Our comments about the "Minimum" and "Broader" approaches are based on the concept of the "management approach" as used in the FASB's Statement of Financial Accounting Standard No. 131, *Disclosures about Segments of an Enterprise and Related Information*. As stated in paragraph 5, the management approach "focuses on financial information that an enterprise's decision makers use to make decisions about the enterprise's operating matters." Further, we note that in paragraph 59, respondents to the segment reporting exposure draft observed that the management approach is valuable because it provides knowledge about the "risks and opportunities that management believes are important." Therefore, to require the presentation of certain line items, subtotals, totals and/or financial metrics undermines the fundamental concept that *management* is responsible for fair presentation of financial information. Further, such a requirement would impede the ability of management to present financial information central to its particular industry in a light that is meaningful to its investors.

Based upon our comments stated above, we cannot support the "Still Broader" approach as it would result in an "across the board" requirement to present certain specific financial metrics. Adopting elements of the "Still Broader" approach would require financial statement preparers to present financial metrics, such as ratios, regardless of whether they are relevant or provide any added value to the financial statement user.

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There should be no additional requirements dictating the information to be presented by companies. Companies are keenly aware of the key measurements used for their industries and are driven by market competition to provide that information. This incentive should remain the responsibility of the free market and competition. We believe that the role of the FASB should be to ensure that information, if presented, carries a meaning that is transparent, consistent and therefore comparable with other companies.

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

2. Is the proposed scope of such a project as described in this Proposal insufficient, appropriate, or too ambitious?

As we noted in response to question 1, we believe that the scope, as defined in the "Broader" approach, will prove extremely useful to FASB's constituents and to the international accounting community as long as management maintains its flexibility in deciding which line items, subtotals, totals and financial metrics are presented.

3. Should specific issues identified above be excluded from the scope of the proposed project on reporting financial performance? 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?

No. Our only concern is the loss of management's flexibility in deciding which line items, subtotals, totals and financial metrics are presented. We concur with all the issues addressed in the scope of the "Minimum" and "Broader" approaches. Also, we support the exclusion of certain specific financial metrics, such as ratios, and the exclusion of matters of recognition and measurement of items in the financial statements, which is the antithesis of "Still Broader" approach.

4. Should specific issues *not* identified above be addressed as part of the proposed project on reporting financial performance? 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.

We believe the FASB has laid out a comprehensive scope which, if coordinated with the IASB, should prove relevant and meaningful.

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Response to Proposal to Add *Disclosure of Intangibles* to the FASB Agenda

Project Summary:

The proposed project would focus on improving information about intangible assets that are not currently recognized as assets in financial statements. The principal goals of the project would be to make new information available to investors and creditors and to improve the quality of information currently being provided—information vital to well-reasoned investment and credit resource allocation decisions. A secondary goal of the project would be to take a first step in what might become an evolution toward recognition in an entity's financial statements of internally generated intangible assets.

Scope of Project:

This Proposal suggests a project scope focused on disclosure about intangible assets that are not recognized in statements of financial position, but would have been recognized if acquired either separately or in a business combination. It would also include in-process research and development assets that, under FASB Interpretation No. 4, *Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method*, are written off to expense on the day they are acquired.

Comments:

Following are our responses to specific questions raised in the proposal:

- 1. Is there a need for the FASB or others to comprehensively address the reporting of information about intangibles of a business enterprise? If yes, should the FASB take on such an effort or defer to others? If defer to others, to whom?**

We do not believe that the time is right for the FASB to add this project to its agenda. We agree that, due to the non-recognition of internally-generated intangibles within the body of the financial statements, it is difficult for users to compare an entity "that has built up substantial intangible assets internally with those of another entity that has purchased most of its intangible assets." (Also, given the nature of the pharmaceutical industry and its tremendous resources dedicated to the internal development of intangible assets, we are acutely sensitive to this perceived problem.) However, we do not believe that this project should be added to the FASB's agenda until the outcome of other projects become known. Specifically:

- The AICPA has been working for a number of years on a white paper to address the accounting for acquired in-process research and development (IPR&D). Further, we note that the SEC has been very involved in this project. The most recent draft available includes additional disclosure requirements about IPR&D as well as valuation guidance. Prior to the FASB taking on the above-described project on intangibles, we would like to see this white paper completed. Further, to ensure that any project undertaken by the Board is appropriately scoped, we

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also suggest that an analysis of the results of compliance with the white paper should be undertaken prior to the FASB embarking on this project.

- The FASB has recently completed and issued SFAS 142, *Goodwill and Other Intangible Assets*. This standard will greatly increase the emphasis on the valuation of acquired intangible assets. Further, under certain circumstances, companies will be forced to value internally generated intangibles and other non-recognized assets in order to satisfy the requirements of the annual goodwill impairment test. Since this is a new standard that will greatly expand our knowledge about the difficulties of accounting for acquired and other intangible assets, we would like to see the results of compliance with this new standard (and the implementation issues) prior to the FASB embarking on this additional project.
- Given the expectation of implementation issues associated with SFAS 141, *Business Combinations*, and SFAS 142, we note that the FASB has already accepted a project called "Business Combinations: Purchase Method Procedures." Since qualitative disclosures and quantitative measures about acquired intangible assets are obviously easier to implement than those concerning internally-generated intangible assets, we would like to see the completion of this project and an analysis of the implementation issues associated with acquired intangible assets prior to the FASB taking on this additional project.
- The IASB has listed "Intangible Assets" as one of the projects being worked on by "one or more of the national standard setting partners." The project, as described, comprises both acquired and internally generated intangible assets. Prior to the FASB devoting resources to its proposed project, we would like to see the results of the work being performed for the IASB. Perhaps, if meaningful progress is being made on the IASB project in this area, the FASB should only then consider lending resources to that project.

In addition to concerns about "timing," we have concerns about the technical feasibility and practical consequences of this project.

Under current guidelines and intuitively, a company is already compelled to disclose information about certain of its intangible assets. It is clear that if such assets exist within a business entity, and if that information is relevant to the current or future operations of that entity, that information should be conveyed to the financial statement user and is currently required to be conveyed. For example, Part I of the Form 10K and 10Qs require disclosure of the importance, duration and effect of intangibles on the business and the "front sections" of annual reports are used by management to convey meaningful information. Depending on the industry, such as the pharmaceutical industry, such disclosures are expected.

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The implementation of a standard on disclosure and perhaps recognition of internally generated intangibles presents a multitude of issues:

- Identification and identification systems
- Valuation
- Disclosure
- Monitoring systems
- Audit ability
- Consistency
- Value added
- Competitive harm
- Legal liability
- Timeliness
- Materiality

For example, assuming the assets can be readily identified, determining a fair value for such an asset becomes an issue. Those assets which cannot be individually identified due to their embedded nature, such as customer satisfaction, carry an intrinsic value to the company that is not easily convertible to a fair value that is identifiable or quantitative independent of the company. Conversely, intangible assets acquired from third parties are subject to the ultimate independent appraisal to confirm the reasonableness of the consideration - cash tendered for the asset! Loosely stated, the definition of fair value is what a willing buyer is prepared to pay a willing seller for the item. Internally identified intangible assets do not have the independent seller-buyer components and therefore, provide a definite obstacle in determining the fair value.

Assuming that a value is determined, the necessity of internally tracking the asset value raises yet another issue. Currently, financial management systems are not set up to track the fluctuations in value of internally generated intangible assets. In order to provide the reporting information, management systems would need to be significantly revamped.

In summary, we believe that this project does not sufficiently satisfy the factors used by the FASB in agenda-making decisions (we cannot comment on available resources):

- *Persuasiveness of the issue:* While an issue, SEC requirements for annual and interim reporting currently call for forward-looking information and disclosure of information deemed significant to the understanding the company's business. Further, investor and other market pressures also demand this type of information if deemed significant to the operations of the company.
- *Alternative Solutions:* While there is inconsistency in practice, we believe that this inconsistency should first be dealt with in the context of acquired intangible assets.

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- **Technical Feasibility:** Given the overwhelming complexity of this project, we are concerned about the ability to achieve a technically sound solution and believe that implementation issues should first be addressed in the context of acquired intangible assets.
 - **Practical Consequences:** Given the overwhelming complexity of this project, we are also concerned about the ability to achieve a solution that is likely to be generally acceptable until the implementation issues are first addressed in the context of acquired intangible assets.
 - **Practical Consequences:** While the project, if performed in conjunction with the IASB could increase convergence of standards, we believe that initial effort is best spent in the area of acquired intangible assets.
2. Is the proposed scope of such a project as described in this Proposal insufficient, appropriate, or too ambitious? One alternative would be a broader scope that might encompass other constituent recommendations, for example (a) disclosure about nonfinancial indicators, management's key goals for them, and related risks, strategies, efforts, and accomplishments in meeting its goals or (b) recognition and measurement of certain internally generated intangible assets. Another alternative would be a limited-scope project that focuses solely on, for example, disclosure of expenditures to develop and maintain unrecognized intangible assets or on disclosure of information about research and development activities.

As noted in response to question 1, we are concerned about the current viability of this project. Several projects are currently underway and, in our opinion, should be completed prior to undertaking this intangibles project.

3. Should specific issues identified above be excluded from the scope of the proposed project on reporting information about intangibles? 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?

As noted in response to question 1, we do not believe the project should be pursued at present until several other projects, currently underway, are completed.

4. Should specific issues *not* identified above be addressed as part of the proposed project on reporting information about intangibles? 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.

As noted in response to question 1, we do not believe the project should be pursued at present until several other projects, currently underway, are completed.