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Technical Director
File Reference 1660-100
Financial Accounting Standards Board
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Subject: Discussion Paper – *Preliminary Views on Revenue Recognition in Contracts with Customers* (File Reference No. 1660-100)

To the Technical Director:

Pfizer is a research-based, global pharmaceutical company with its principal place of business in New York. We discover, develop, manufacture and market leading prescription medicines for humans and animals. The Company's 2008 total revenues were \$48 billion and its assets were \$111 billion. We appreciate the opportunity to respond to the Discussion Paper – Preliminary Views on Revenue Recognition in Contracts with Customers.

Pfizer supports the Boards' efforts to develop a single, contract-based revenue recognition model, with the goal of increasing consistency in revenue recognition and improving comparability and understandability of revenue for users of financial statements. Pfizer also supports the Boards' goal of convergence of U.S. GAAP with International Financial Reporting Standards. However, as expressed more fully in our attached comments, we believe that there are areas that are not adequately addressed and that require further consideration. We have also highlighted areas which we feel require additional guidance and where illustrative examples should be included in any final standard.

Following are our general comments on the Discussion Paper.

We acknowledge that the current application of the "earnings process" approach to revenue recognition, which is not precisely defined, has led to the creation of numerous standards on revenue recognition and likely to inconsistent application and reduced comparability of revenue reporting across entities and industries. We believe that the proposed revenue recognition model in the Discussion Paper, which focuses on changes in assets and liabilities, has merit and is aligned with the existing definitions of revenue

in both U.S. GAAP and IFRS. However, we are concerned that there are certain aspects of the proposed model that would not provide more decision-useful information than current U.S. GAAP. In addition, we feel the proposed model presents some implementation issues which are not adequately addressed and for which additional guidance should be included in a draft standard.

The proposed approach defines a *performance obligation* as “a promise in a contract with a customer to transfer an asset (such as a good or service) to that customer.” That definition is generally consistent with the notion of a “deliverable” in current practice. However, we are concerned that its broad application could place an onerous burden upon companies to identify all the potential numerous promises in complex multiple element arrangements, many of which may have a low (or remote) likelihood of performance in a contract. We recommend that the Boards’ consider incorporating the guidance similar to that in SAB 104 for “inconsequential or perfunctory” performance obligations.

For example, with regard to when an entity licenses a patent on its intellectual property to a customer and the entity represents that it will defend and maintain the patent, the SEC position is that, while the clause may obligate the entity to incur costs in the defense and maintenance of the patent, that obligation does not involve an additional deliverable to the customer. Defending the patent is generally consistent with the seller’s representation in the license that such patent is legal and valid. Therefore, the Staff would not consider a clause like this to represent an additional deliverable in the arrangement.

Similarly, we do not believe that rights of return should be viewed as separate performance obligations and that application of the proposed model to rights of return would not provide more decision useful information than existing U.S. GAAP (i.e., SFAS 48 and SFAS 5). In fact, the recycling of sales is concerning, even without a profit margin.

Under the proposed model, sales incentives could give rise to performance obligations. The Discussion Paper does not address how sales incentives within the scope of EITF 01-9, *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor’s Products)* would be accounted for. In addition, EITF 01-9 has a broad definition of a *customer* which includes a reseller or a consumer (including direct and indirect customers). The Discussion Paper focuses on the rights and obligations in a particular contract, and the unit of account is the entity’s own net position from the remaining rights and obligations in that contract only (or group of contracts if they are deemed to be related – a matter not discussed in the Discussion Paper- section 2.26). Thus, if an entity enters into a contract to sell products to a wholesaler (its direct customer), pays slotting fees to a retailer (the entity’s indirect customer) under a separate arrangement, and issues a coupon offer redeemable by retail consumers, it is unclear under the proposed model whether these contracts would be grouped together as a single unit of account and whether these types of sales incentives would be within the scope of the proposed revenue recognition model.

Under the proposed model, an entity's promise to deliver a good or service is fulfilled when the entity transfers the good or service to the customer. The customer has the promised asset when it controls the resource underlying the promised asset. The transfer of control typically occurs at the point when the customer takes physical possession of the good. We do not believe that the definition of control should be completely divorced from the concept of "risks and rewards" of ownership. We feel that the Boards should more fully consider the impact of the proposed model on shipping terms (e.g., FOB shipping point or FOB destination), consignment arrangements (legal and in-substance consignments) and "bill-and-hold" transactions and that illustrative examples should be included in a final Standard. Again, companies would be burdened with trying to surmise when the customer has physical possession after the goods have left the shipping dock.

The Discussion Paper does not specifically address the accounting for the transfer of a right to use intellectual property. Thus, it is unclear when control of the right to use intellectual property is transferred to a customer, i.e., at the date access to the intellectual property is granted or over the term of the license agreement. We believe that control has been transferred to the customer when they are granted access to the intellectual property and they have the ability to fully exploit the intellectual property for its intended use, but we don't believe that this event is determinative for revenue recognition. We recommend that any final Standard address the accounting for the transfer of rights to use intellectual property and intangibles and include illustrative examples.

The proposed model does not address contingent consideration. In the pharmaceutical industry, it is very common to enter into licensing agreements in which the consideration includes an upfront payment, milestone payments and royalties on sales. The entity (the licensor) may provide services, in addition to transferring the right to use intellectual property, such as research and development services and/or contract manufacturing to the customer. While the Discussion Paper has addressed potential approaches to allocating the transaction price to multiple performance obligations, it has not considered how contingent consideration such as milestones and royalties would be recognized in those arrangements. We believe that a draft Standard should include a proposed approach to revenue recognition for contingent consideration so that financial statement preparers can assess how it may change current practice.

The proposed model has not addressed credit risk and collectibility. The Boards have not yet expressed a preliminary view on measurements of rights. However, Section 5.5 of the Discussion Paper states that "any measurement of the rights would be based on the amount of promised consideration (that is, the transaction price). It may also need to reflect the time value of money and any uncertainties in the amount and timing of consideration." It is unclear how collectibility would be incorporated into the model, e.g., at inception of the contract, at the time the performance obligation is satisfied, etc. Any robust revenue recognition model presented in the draft standard should incorporate guidance on measurement of rights taking into account credit risk and collectibility.

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Finally, we feel strongly that any comprehensive standard on revenue recognition should include guidance on how to distinguish between revenues and other elements of comprehensive income. We feel that current guidance in U.S. GAAP and IFRS is insufficient and has led to inconsistency and lack of comparability of revenue reporting. The definition of revenues in FASB Concepts Statement No. 6 which includes the concept of “activities that constitute the entity’s ongoing major or central operations” and IAS 18, paragraph 7 (“inflows ... arising in the course of ordinary activities”) is a useful starting point, but more robust guidance is needed to improve consistency and comparability.

Once again, we appreciate this opportunity to comment and encourage the FASB to continue to engage its constituents. If requested, we would be pleased to discuss our observations with you at any time.

Sincerely,

Loretta Cangialosi

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Senior Vice President and Controller

cc: Frank D’Amelio
Senior Vice President, Chief Financial Officer