Letter of Comment No: 167
File Reference: EITF03-1A

Merck & Co., Inc.
One Merck Drive
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MERCK

October 29, 2004

Mr. Larry Smith
Director of Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

Re: Proposed FASB Staff Position EITF Issue 03-1a, Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" (FSP EITF Issue 03-1a)

Dear Mr. Smith:

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 organization that discovers, develops, manufactures and markets a broad range of innovative products to improve human and animal health. We are pleased to provide you with our comments on the proposed FSP EITF Issue 03-1a.

Given the inherent uncertainties in the pharmaceutical business, Merck has always operated so as not to compound those risks with financial risk. Because of that, the Company has a very deep financial strength, which includes a substantial investment portfolio of nearly $13 billion managed primarily to preserve capital and to provide liquidity for operations if necessary. The portfolio is actively managed against benchmarks consistent with management's capital and liquidity objectives. The available-for-sale (AFS) classification of FASB Statement No. 115, *"Accounting for Certain Investments in Debt and Equity Securities"* (FAS 115) and commensurate accounting treatment correspond to this investing strategy. However, given the arduous requirements outlined in EITF 03-1 and the proposed FSP, we question whether the AFS category will become too impractical for companies to apply. Our specific concerns are outlined below.

Portfolio Management and Intent-Based Accounting

Prudent financial and interest rate risk management require a flexible approach focused on occasional rebalancing of risks, durations and exposures on an overall portfolio basis and achieving this objective requires periodic sales and purchases of individual securities within the portfolio. The FSP's requirement to evaluate impairment and assert intent to hold to forecasted recovery at the individual investment level, however, contradicts this sound strategy. For example, in an increasing interest rate environment, certain debt securities may be sold at a loss with those proceeds immediately reinvested into higher yielding bonds. Management's decision to sell a security and realize a loss may not reflect deterioration in the overall quality of the investment, but rather a rebalancing of the portfolio. Therefore, it would be difficult for companies to assert a positive intent to hold all individual investments to forecasted recovery without ultimately violating those declarations and potentially tainting future deferrals of unrealized losses. The consequent accounting would be lower-of-cost-or-market treatment for all securities classified as AFS, a method that was considered and abandoned when FAS 115 was originally deliberated.

Description of Minor Impairments

Bond prices fluctuate inversely to overall interest rate movements, an individual issuer's credit spread and time to maturity. The FSP, however, introduces the concept of *sector spread*, a measure currently undefined in generally accepted accounting principles, to describe when an unrealized loss may be deemed a minor impairment. Specifically, paragraph 5 of the proposed FSP states that "a minor impairment caused by interest rate and/or *sector spread* increases can be considered temporary and would not create the need for an assertion about the ability and intent to hold an investment until a forecasted recovery." As aptly highlighted in the basis for conclusion of FASB Statement No. 138, *"Accounting for Certain Derivative Instruments and Certain Hedging Activities"* paragraph 14 "measuring the change in fair value of (a security) attributable to changes in credit sector spreads would be difficult because consistent sector spread data are not readily available in the market." Accordingly, it is troubling that the FSP's description of minor impairments reintroduces this concept. Furthermore, sector spread, as we understand, is broadly meant to be an average credit barometer for a particular industry, meaning that 50% of the bonds in any particular sector could inevitably have unrealized losses that would not be considered minor impairments as their individual credit spread changes would naturally be wider than the average. As such, we question the merits and practicality of the proposed definition of minor impairments.

Internal Control Considerations

Overall, any impairment evaluation methodology that requires bifurcating the cause of unrealized losses for debt securities between interest and credit will be problematic. As noted above, investments are not managed this way and thus, this level of detailed information is not currently maintained on a routine, systematic basis. Appropriate consideration for establishing necessary systems, procedures and internal controls would be necessary, as well as allowing adequate time to address Sarbanes-Oxley Section 404 requirements that may include issues such as obtaining timely SAS 70 reports from external service providers.

In light of the significance of the changes being proposed, it appears that this goes beyond the normal scope of the EITF. We ask the Board to reconsider the guidance in EITF 03-1 and the proposed FSP, but to do so with the open due process that an amendment to FAS 115, level A GAAP, requires. Absent an amendment to FAS 115, any interpretive guidance on the meaning of other-than-temporary impairment should more fully incorporate existing approaches that consider the length of time and extent of the impairment, whether credit quality triggers exist and overall materiality.

Thank you for the opportunity to provide comments on the proposed FSP EITF Issue 03-1a. 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.

cc: J.C. Lewent - Executive Vice President & Chief Financial Officer, President, Human Health Asia
C. Dorsa - Vice President and Treasurer