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Loretta Cangialosi
Vice President and Controller

July 30, 2004

Letter of Comment No: 12
File Reference: 1099-001
Date Received:

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Subject: File Reference 1099-001 – Exposure Draft of the Proposed Interpretation, *Accounting for Conditional Asset Retirement Obligations*

Dear Sir/Madam:

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 and many of the world's best-known consumer products. The Company's 2003 total revenues were \$45.2 billion and its assets were \$116.8 billion. We appreciate the opportunity to respond to the exposure draft on the proposed interpretation on FASB Statement No. 143, *Accounting for Conditional Asset Retirement Obligations* ("Statement 143"), as we are extremely committed to the FASB and its objectives.

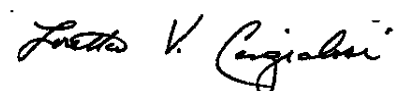
We agree with the FASB's initiative to eliminate diversity in accounting practice with respect to the timing of liability recognition for legal obligations associated with retirement of a tangible long-lived asset when the performance of the retirement activity is conditional on a future event. We do not, however, agree with the views in the exposure draft in its present form as we do not believe that a legal obligation to perform an asset retirement activity that is conditional on a future event should be within the scope of Statement 143. We believe the judgment and subjectivity required to develop such estimates of the fair value of conditional events, including those that are very unlikely, would reduce the value of financial statements to the user community.

Attached are our comments, which include responses to the issues included in the "Notice to Recipients of This Exposure Draft."

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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.

Very truly yours,

A handwritten signature in black ink, reading "Loretta V. Cangialosi". The signature is written in a cursive style with a small dot above the first letter of the first name.

Loretta V. Cangialosi

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

General Comment

We believe that investors and other users of financial statements are best served when, in the words of Concepts Statement No. 5 (CON 5), events “are recognized only when sufficient available information about the effects of the event has become available at a justifiable cost to reduce uncertainty to an acceptable level.” We also believe that readers of financial statements are best served when standard-setters recognize the limitations of the accounting model. The accounting model works best when it measures, records and summarizes past transactions and events. It becomes increasingly inadequate as it departs further and further from this baseline. The challenge is to recognize the point at which the usefulness of the measure is defeated by the complexity and/or appropriateness of its calculation.

- We believe that this interpretation actually interjects risk, uncertainty and non-comparability into the financial statement process. Calculating and recording the fair value of a conditional event that is not probable doesn’t appear to satisfy the condition of “sufficient available information ... to reduce uncertainty to an acceptable level.”
- We also find this to be an example where auditors will be asked to opine on the unknown, the unknowable and the “not probable.” We are concerned that this interpretation will harm the overall issue of “audit effectiveness” and widen the “expectation gap.”
- Further, while the FASB asserts that “uncertainty surrounding the timing and method of settlement ... should be factored into the measurement,” we fear that the FASB does not appreciate the significant amount of work, record-keeping and stress that such a requirement places on an organization.
- All of the above might be acceptable if the benefits to be derived were clearly evident and inarguably substantial. We do not believe they are.

We sincerely ask the Board to reconsider this interpretation.

Issue 1

The Board concluded that the uncertainty surrounding the timing and method of settlement should not affect whether the fair value of a liability for a conditional asset retirement obligation would be recognized but rather, should be factored into the measurement of the liability. Do you agree with the Board’s conclusion? If not, please provide your alternative view and the basis for it.

We do not agree with the Board’s conclusion that the uncertainty surrounding the timing and method of settlement should not affect whether the fair value of a liability for a conditional asset retirement obligation would be recognized, but rather we believe they should be factored into the measurement of the liability. While we appreciate your acknowledgement of the differences in the fair value approach required by Statement 143 and Statement 5, we do believe that the level of uncertainty should be considered in the recognition of an obligation. Again, we cite Concepts Statement 5 that states that some events “are recognized only when sufficient available information about the effects of the event has become available at a justifiable cost to reduce uncertainty to an acceptable level.” We also continue our citation of CON 5 and note that the Fundamental Recognition criteria includes guidance that an item be *measurable with sufficient reliability* and that the information used be *verifiable*.

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More specifically, Statement 5 states that an estimated loss from a loss contingency should be accrued if both of the following conditions are met: (a) information available prior to issuance of the financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements and (b) loss and the amount of loss can be reasonably estimated. Statement 5 further states it is implicit in this condition that it must be probable that one or more future events will occur confirming the fact of the loss. Under the current exposure draft, even losses that are extremely remote would be valued and recorded in a company's financial statements given the probabilities assigned to the potential obligation. This would require significant judgment and subjectivity in developing both the assumptions and relative probabilities that would be assigned to a wide range of cash flows. In many situations, particularly where there is little historical experience, it would be extremely difficult to reliably determine these probabilities on a consistent basis for such uncertain and potentially unlikely events. In our opinion, this would likely reduce consistency in financial reporting since financial statement preparers, auditors and users evaluating similar facts and circumstances could deduce different accounting and reporting conclusions. As a result, such varying practices would ultimately lessen the value of financial statements to the user community.

Alternatively, the FASB's objectives could be achieved by requiring additional disclosures that detail the nature of such conditional events as well as the potential exposure. In doing so, an investor will be alerted to the potential risks to the organization in order to make informed investment decisions without adding the element of risk into the financial statements. Therefore, we strongly believe that uncertainty should be utilized to determine when a conditional asset retirement obligation should be recognized.

Issue 2

The Board concluded that all retirement obligations within the scope of Statement 143 that meets the definition of a liability in Concepts Statement 6 should be recognized as liabilities. Concepts Statement 6 states that a liability has three essential characteristics. The second characteristic of a liability is that the duty or responsibility obligates a particular entity, leaving it little or no discretion to avoid the future sacrifice. The Board decided that the ability to indefinitely defer settlement of an asset retirement obligation or the ability to see the asset does not provide the entity discretion to avoid the future sacrifice, nor does it relieve the entity of the obligation. Are there instances where a law or regulation obligates an entity to perform retirement activities but allows the entity to permanently avoid settling the obligation? If so, please provide specific examples.

While we agree that all retirement obligations that meet the definition of a liability detailed in Concepts Statement 6 should be included within the scope of Statement 143, we do not believe this definition has been achieved in the examples provided within the exposure draft. Paragraph 36 of Concepts Statement 6 states that a liability has three essential characteristics: (a) it embodies a present duty or responsibility to one or more other entities that entails settlement by probable future transfer or use of assets at a specified or determinable date, on occurrence of a specified event, or on demand, (b) the duty or responsibility obligates a particular entity, leaving it little or no discretion to avoid the future sacrifice, and (c) the transaction or other event obligating the entity has already happened. All of these characteristics have not been met, including the second criteria.

Based upon current guidance, there are situations where an entity can indefinitely defer settlement of an asset retirement obligation. For example, using the current guidance related to asbestos containing materials published by the United States Environmental Protection Agency (EPA) and National Emission Standards for Hazardous Air Pollutants (NESHAP), a building owner or operator is not

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required to remove damaged or deteriorating asbestos containing materials unless they renovate the facility (which would disturb the asbestos) and it exceeds the threshold amount. Additionally, Category I non-friable materials (i.e., resilient flooring coverings, asphalt roofing products) in good condition, need not be removed at all prior to demolition or renovation because generally these materials do not release significant amounts of asbestos fibers, even when damaged. Further, Category II non-friable materials can be evaluated on a case-by-case basis for removal depending upon whether the material is likely to become crushed, pulverized or reduced to powder during demolition or renovation. Therefore, under certain circumstances, it is possible to perform retirement activities without causing a settlement of the obligation or incurring significant supplementary costs

Furthermore, to assume that settlement will occur is to assume that a building owner or operator will demolish a site at a point in time, which could be extremely difficult to reasonably estimate. Given a company's ability to renovate or refurbish a facility for extended time periods, a settlement could be indefinite. We believe that the existence of asbestos containing materials does not legally obligate an entity unless that asbestos becomes friable or will become friable as a result of plans to demolish or renovate a facility. At that point only, the triggering event has occurred. Said differently, we do not believe that the mere existence of asbestos is presumptive evidence of contamination ... "contamination" being the event triggering the obligation.

We believe, as detailed in Concepts Statement 6, an asset retirement obligation should be recorded as a present duty or responsibility has been satisfied, the entity is obligated, and the event has happened. In the situation detailed above, since a building owner or operator is not required by current laws, regulations, or contracts to settle this obligation, a present duty has not been satisfied. Additionally, a building owner or operator can defer settlement by properly maintaining a facility or by renovating a facility in the normal course of operations. Lastly, in this situation, the obligating event has not happened or been triggered until a decision has been made which would cause the asbestos containing materials to become friable.

Other Comments

Given the level of effort required, particularly in a large multinational company, to sufficiently design a comprehensive process to identify all conditional asset retirement obligations and collect the data required for such calculations as well as develop the assumptions, evaluate the potential cash flows and determine the associated probabilities for such flows, additional time may be required to properly implement this standard. Further, we do not believe the costs to implement this interpretation will outweigh the benefits derived by investors, particularly given the judgment and subjectivity of assumptions in the calculations.