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Loretta Cangialosi Vice President and Controller

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October 31, 2003

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

File Reference 1025-200

Subject: Exposure Draft – Proposed Statement of Financial Accounting Standards, Employers' Disclosures about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88 and 106 and a replacement of FASB Statement No. 132

Dear Sir:

Pfizer Inc appreciates the opportunity to express its views on the FASB Exposure Draft, "Employers' Disclosures about Pensions and Other Postretirement Benefits" (ED), dated September 12, 2003.

Pfizer is a research-based global pharmaceutical company that discovers, develops, manufactures, and markets innovative medicines for humans and animals. For 2002, total revenues and assets were approximately \$32 billion and \$46 billion, respectively.

Pfizer supports the Board's efforts to increase the transparency of pension disclosures given the complex nature of FASB Statement No. 87 and its impact on both the income statement and the balance sheet, the complexity surrounding regulatory funding rules and requirements, and the long-term investment strategies employed to ensure that assets grow sufficiently over time to meet the future benefit obligations.

However, we are concerned that the current focus on pension disclosures may be an overreaction in response to the rare event that has occurred in financial markets – a large decline in equity prices and a fall in interest rates that have negatively impacted the financial status of pension plans. In addition, we are concerned that the push for more frequent disclosures may serve to cause confusion as investors may place too much emphasis on the

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normal short-term volatility in financial markets and lose sight of the long-term focus of investing decisions.

In general, we feel that there has not been an adequate deliberation period to fully consider all of the potential implementation issues and operationality of such a Standard. Given the complexity of the area and the significance of the proposed changes, we believe that the comment period for this ED is too short for financial statement preparers, actuaries and pension fund managers to adequately consider all the ramifications of the proposed Standard.

For large, multinational companies, implementation of the proposed Standard will likely involve hundreds of legal entities and multiple actuaries and investment consultants (in Pfizer's case, we have actuaries in over 40 markets covering over 100 plans). The need to prepare clear, directional instructions on this very complex area, to educate and train non-US (non-English-speaking) staff at international subsidiaries and to coordinate with local actuaries and consultants in such a short time frame, will further complicate the task and possibly negatively impact the quality of the information that is collected and consolidated for the new disclosures. In light of the difficulties faced by multi-national entities in collecting the new information, meeting the disclosure requirements of a final standard issued in November or December 2003 that is effective for December 31, 2003 annual filings (for calendar year companies) will place undue burdens upon companies both in terms of resources and costs. This will be an even more challenging exercise given the SEC's accelerated filing deadlines.

Based on the difficulties that we foresee for multi-national companies to comply with the 2003 effective date, we would propose a delayed effective date for disclosure requirements for international plan data: The effective date for U.S. plan information would be immediate (i.e., for fiscal years ending after December 15, 2003) and for international plan information the disclosure requirements would be effective for fiscal years ending after December 15, 2004.

Our comments on ED are expressed more fully in the attachment and we would be happy to discuss our views with you and the staff of the FASB.

Very truly yours,

Loretta V. Cangialosi

Loretta .V. Cangialosi Vice President and Controller

cc: Mr. D. L. Shedlarz, Executive Vice President and Chief Financial Officer, Pfizer Inc

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Pfizer Inc Comments on FASB Proposed Statement of Financial Accounting Standards, Employers' Disclosures about Pensions and Other Postretirement Benefits

Request for Comments - Disclosures in Annual Financial Statements

Are the proposed disclosures described below needed for users to understand the financial condition and results, market risks, and cash flows associated with pension plans and other postretirement benefit plans? Should any of the proposed disclosures be eliminated and why? What additional disclosures should the Board require that are not included in this proposed Statement or existing requirements? Can the information to be disclosed be provided without imposing excessive cost?

Plan Assets

<u>ED:</u> Disclosure of the following information for each major category of plan assets (i.e., equity securities, debt securities, real estate, and all other assets):

- Percentage of the fair value of total plan assets as of the date of each statement of financial position presented;
- Target allocation percentage or range of percentages, presented on a weighted average basis:
- Expected long-term rate of return, presented on a weighted-average basis; and
- Range and weighted average of the contractual maturities, or term, of all debt securities.

Pfizer Response:

In general, we believe that the additional disclosures on plan assets by major asset category would be useful to financial statement users in understanding investment strategies and assessing market risk. However, for companies with numerous plans in multiple countries, obtaining fair value and maturity information from oversees plan trustees and aggregating it to meet the 2003 year-end disclosures may prove especially difficult and challenging (see comments on effective date and transition).

The disclosure of the weighted average expected return by asset category and total plan may be misleading to the financial statement user community as the total expected return is not simply the weighted sum of each asset class but rather, it includes the favorable portfolio diversification return effect of combining not fully correlated asset classes, the expected additional excess return from employing active management, as well as the benefits of rebalancing the portfolio on a systematic basis.

Given that the expected return is also driven by historical performance over the longer-term horizon (say 10 years), it would be useful to disclose long term plan returns to put the expected returns into a better context.

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Defined Benefit Pension Plan Accumulated Benefit Obligation

ED: Disclosure of the defined benefit pension plan accumulated benefit obligation.

Pfizer Response:

We support the disclosure of the accumulated benefit obligation since it is the measure of the pension obligation used to determine the amount of the minimum liability to be recognized.

Cash Flow Information

ED: Disclosure of:

- Estimated future benefit payments included in the determination of the benefit
 obligation for each of the five succeeding fiscal years, and the total amount thereafter,
 with separate deduction from the total for the amount representing interest necessary
 to reduce the estimated future payments to present value
- The employer's contributions expected to be paid to the plan during the next fiscal year, showing separately contributions that are legally required, discretionary and noncash contributions.

Pfizer Response:

Given that a large majority of Pfizer's pension assets have no fixed maturity date (i.e., equities), we don't believe that disclosing the amount of timing of benefit payments that can essentially be matched to asset maturities will provide meaningful information. In addition, the disclosure of estimated future benefit payments is driven by a host of actuarial assumptions (e.g., turnover, retirement rates, lump sum vs. annuity elections, lump sum discount rates, etc.) that will require significant costs to generate and that may significantly change from year-to-year. Simply presenting the table without providing the rather complex assumptions behind these projections will not enhance understanding. We believe that this disclosure should be eliminated since the limited benefit of this disclosure does not justify the costs of compliance. Finally, since these are the financial statement of the sponsors and not of the plans themselves, we are concerned that financial statement users may confuse benefit payments with funding requirements.

In general, we support the increased disclosures on expected contributions that are proposed in the ED and believe that this information will be useful to users of financial statements. However, we believe that disclosure of employers' contributions expected to be paid to a plan over the next year should be limited to those required by funding regulations or laws. A company's expected discretionary voluntary contributions should not be a required disclosure since actual discretionary contributions, by their very nature, are likely to vary significantly from previously disclosed estimates rendering the company open to question on its estimates, and the information of limited decision-making usefulness. In addition, the long lag in time between when we can estimate our discretionary voluntary contributions for the upcoming

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year, when we formulate our funding strategy, and the timing of when we make the contribution, will increase the difficulties in explaining to financial statement users changes in discretionary contributions. Finally, we are concerned about the ability of our auditors to cover this "intent-based" disclosure in their audit opinion.

Assumptions

<u>ED</u>: Disclosure in tabular format of the following key assumptions on a weighted-average basis (separately identifying the assumptions used to measure benefit obligations as of the plan's measurement date and those used to measure net benefit cost or income for the period): the assumed discount rates, rates of compensation increase (for pay-related plans), and expected long-term rates of return on plan assets.

Pfizer Response:

We believe that the change in presentation of these disclosures will improve the clarity of the information.

Sensitivity Information about Changes in Certain Assumptions

ED: The Board considered, but did not include in this proposed Statement, a requirement to disclose sensitivity information about the impact on net periodic benefit cost and the benefit obligation of a hypothetical change in certain assumptions, such as expected long-term rates of return on assets, discount rates, and rate of compensation increase, while holding the other assumptions constant.

Should disclosure of sensitivity information about hypothetical changes in certain assumptions be required and why?

Pfizer Response:

Disclosure of sensitivity information about hypothetical changes in certain assumptions should not be required *but encouraged*. We agree that there are correlation effects if multiple assumptions change in response to changes in economic conditions. Nevertheless, we believe this information is useful to financial statement users and we have voluntarily provided sensitivity analysis disclosures on hypothetical changes in the expected long-term rate of return on assets and the discount rate used in calculating pension obligations in the Financial Review (MD&A) section of our 2002 Annual Report.

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Measurement Date(s)

<u>ED:</u> Disclosure of the measurement date(s) only when an economic event occurs, or economic conditions change, after the measurement date(s) but before the fiscal year-end, and if those changes may have had a significant effect on plan assets, obligations, or net periodic cost, had the fiscal year-end date been used as the measurement date.

Pfizer Response:

We support disclosure of measurement dates under the "exception basis" criteria proposed in the ED. Changes in equity markets and interest rates could potentially have a significant impact on plan assets, obligations and net periodic cost in the period between the measurement date and fiscal year-end. Under these circumstances, the measurement date and the nature of the significant changes would be relevant to users of financial statements in assessing risks and having a clearer picture of the funded status of the company's plans.

Reconciliations of Beginning and Ending Balances of Plan Assets and Benefit Obligations

<u>ED:</u> Elimination of the requirement in Statement 132 to provide reconciliations of beginning and ending balances of the fair value of plan assets and benefit obligations. Disclosure of ending balances and retention of key elements of the reconciliations that are not disclosed elsewhere: actual return on assets, benefit payments, employer contributions, and participant contributions.

Should the reconciliations, as required by Statement 132, be eliminated or retained and why?

Pfizer Response:

We believe that the reconciliations, as required by Statement 132, should be retained since the reconciliations provide a readily accessible format for complete disclosure of changes in the fair value of plan assets and benefit obligations that is well accepted and understood by users of financial statements. Elimination of the reconciliation will place the onus and difficulty of reconstructing all of the different components that comprise the change in the assets and liabilities on financial statement users.

We are in agreement with the alternative view expressed by the three Board members that disagreed with the decision to eliminate the reconciliations. Those Board members noted that the Board's decision to retain the reconciliation requirements in Statement 132 was based on input from financial analysts. The three Board members questioned why the Board would remove reconciliations whose usefulness was established as part of the development of Statement 132, in the absence of evidence indicating that usefulness of those disclosures has diminished.

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Disclosures in Interim Financial Reports

ED: Disclosure of the following information in interim financial statements:

The amount of net periodic pension and other postretirement benefit cost recognized, showing separately the service cost component, the interest cost component, the expected return on plan assets for the period, the amortization of the unrecognized transition obligation or transition asset, the amount of recognized gains and losses, the amount of prior service cost recognized, and the amount of gain or loss recognized due to a settlement or curtailment

The employer's contribution paid, or expected to be paid during the year, if significantly different from previous annual disclosures, showing separately (1) contributions required by funding regulations or laws, (2) additional discretionary contributions, and (3) the aggregate amount and description of any noncash contributions.

Are the proposed disclosures needed for users to understand the financial condition, results, and cash flows associated with pension and other postretirement benefits? Should additional disclosures be required? Should either of the proposed interim period disclosures be eliminated?

Pfizer Response:

We believe that the proposed interim disclosures should be eliminated since they are of limited decision-making usefulness. Many elements of net benefit cost are determined on an annual basis and pension obligations are long-term in nature. Such disclosures seem to suggest a short-term perspective about long-term obligations. In addition, the assumptions used to estimate annual net benefit cost would typically not be finalized, in some cases, until the third quarter of the fiscal year. This further reduces the relevance of interim disclosures of net benefit cost. Given the limited usefulness along with companies having to meet accelerated SEC reporting deadlines, we feel strongly that these disclosures should be eliminated.

Effective Date and Transition

<u>ED</u>: The provisions of this proposed Statement would be effective for fiscal years ending after December 15, 2003. The interim-period disclosures in this proposed Statement would be effective for the first fiscal quarter of the year following initial application of the annual disclosure requirements. The disclosures for earlier annual periods presented for comparative purposes would be restated for (a) the percentages of each major category of plan assets held and (b) the accumulated benefit obligation. The disclosures for earlier interim periods presented for comparative purposes would be restated for the components of net benefit cost.

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Are the proposed effective date provisions and transition appropriate? If not, what alternative effective dates and transition would you suggest and why? If individual disclosures require additional time to compile, please describe the nature and extent of the effort required.

Pfizer Response:

We feel very strongly that the Board should reconsider the effective date and transaction provisions as proposed in the ED. Implementation of the proposed Standard by multi-national companies will involve potentially hundreds of legal entities and multiple actuaries and investment consultants. In Pfizer's case, we have over 100 plans in 40 markets. Given the timing of the issuance of a final Standard that would be effective for companies with December 31, fiscal year-ends, and the SEC's accelerated filing deadlines, we feel that there will be insufficient time for multi-national companies to comply with the 2003 annual disclosures. The need to revise and distribute year-end reporting instructions, the education and training efforts required for non-US (non-English-speaking) staff at international subsidiaries, and coordination with local actuaries and consultants to collect data not previously requested, in such a short time frame will place undue burdens upon companies, in terms of costs and resources.

Based on the difficulties that we foresee for multi-national companies to comply with the 2003 effective date, we would propose a delayed effective date for disclosure requirements for international plan data: The effective date for U.S. plan information would be immediate (i.e., for fiscal years ending after December 15, 2003) and for international plan information the disclosure requirements would be effective for fiscal years ending after December 15, 2004.