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January 12, 1996

Herbert V. Ryan Corporate Controller

Mr. Timothy S. Lucas
Director of Research and Technical Activities
Financial Accounting Standards Board
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Letter of Comment No: 80
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Subject: Exposure Draft - Consolidated Financial Statements: Policy and Procedures (File Reference No. 154-D)

Dear Mr. Lucas:

Pfizer Inc appreciates the opportunity to express its views on the FASB Exposure Draft, "Consolidated Financial Statements: Policy and Procedures" (ED), dated October 16, 1995.

Pfizer is a research-based health care company with global operations in over 140 countries. The Company's 1995 sales were approximately \$10 billion and its assets are approximately \$12 billion.

We support the Board in its initiatives aimed at improving the relevance, reliability and comparability of financial information. We acknowledge that current consolidation *procedures* used by companies in preparing consolidated financial statements are somewhat inconsistent. We believe that the consolidation *procedures* proposed in this ED will level the playing field, thus enhancing the comparability of financial statements. In Attachment A, we have provided specific comments on selected proposed consolidation *procedures*.

One of the procedural changes we do object to, however, is the Board's proposal which would require that the financial information of a subsidiary cover the same fiscal period as its parent. While we agree that the three-month accommodation period allowed by Accounting Research Bulletin No. 51, Consolidated Financial Statements (ARB No. 51) is no longer warranted in light of advances in telecommunications and management information systems, we do believe there are legitimate, practical reasons why a shorter accommodation period should be allowed. In Attachment A, we discuss some of our reasons. We suggest that a final Standard allow a one-month accommodation period. In our view, a one-month accommodation period would result in reported results that would not be materially different than those using the same fiscal period, while providing a reasonable accommodation for financial statement preparers.

Regarding consolidation *policy*, we question whether the Board's proposal is a substantial and necessary improvement over the consolidation policy requirements set forth in ARB No. 51, and FASB Statement No. 94, *Consolidation of All Majority-Owned Subsidiaries* (SFAS No. 94).

According to SFAS No. 94, the usual condition for a controlling financial interest is ownership of a majority voting interest and all majority-owned subsidiaries must be consolidated. Thus, under SFAS No. 94, control is evidenced by an objective measure - a majority voting interest. Unless a parent has a majority voting interest (legal control), the Board's proposal would introduce a potentially high degree of uncertainty in the consolidation decision because of the subjectivity inherent in determining whether effective control has been reached. It is our view that the comparability of financial statements could be hindered by this subjectivity as, for example, separate management groups could arrive at different conclusions in light of virtually the same facts and circumstances.

In Pfizer's response to the Board's Discussion Memorandum, Consolidation Policy and Procedures (DM), dated September 10, 1991, we stated our preference for the parent company view of consolidated financial statements and that control and ownership are two separate and necessary conditions for consolidating a subsidiary with its parent. We continue to take this position. As the DM states, ownership embraces the notion of beneficial interest (para. 131) and beneficial interest is so important to the parent company concept that consolidation is appropriate only if the parent's stockholders have a beneficial interest in the subsidiary (para. 133). SFAS No. 94 sets forth a majority ownership threshold, which we believe is appropriate and has worked well in practice.

Furthermore, we are not aware of any compelling demand by preparers or users of financial statements to change consolidation policy, nor do we believe that the proposed consolidation policy will have widespread impact. Indeed, the Board acknowledges: "...because most entities already consolidate all or most of their subsidiaries, this Statement's consolidation policy is not expected to add significantly to the number of entities to be consolidated" (para. 51). So, why fix something that is not in need of repair and which will not have a significant impact anyway?

Finally, we believe that the definition of temporary control and description of the circumstances under which control is deemed temporary (para.16) are improvements over current guidance and support their inclusion in a final Standard.

Very truly yours,

Attachment

cc: Mr. D.L. Shedlarz, CFO

ATTACHMENT A

Consolidation Procedures

Reporting Noncontrolling Interest in Subsidiaries

In our experience, the level of minority interest for most companies is small relative to their consolidated net assets. As such, we do not believe that the location of minority interest amounts in the balance sheet and income statement is a major concern for most users of financial statements. Current practice, though not theoretically pure with regard to display on the balance sheet, is acceptable to most users of financial statements. We do not, however, have any theoretical objections to the Board's proposals in this area.

Acquisition of a Subsidiary

We agree with the Board that a parent, upon acquiring control (but not 100% ownership) of an entity, should record the fair value of *all* of the identifiable assets and liabilities of the subsidiary, but *only the parent's share of goodwill*, on the date the parent-subsidiary relationship is established. We favor this approach because: 1) the current value established by the exchange transaction is recorded, as opposed to the parent company approach in which the consolidated financial statements reflect both current values and carryforward book values; 2) recorded goodwill is a more reliable and objective amount than that determined under the 'full goodwill' method described in the DM.

We also agree that the cost of an acquired entity, for both the acquisition of an 100% interest and a less than 100% interest, should be the sum of carrying amounts of earlier investments plus the amount paid for the investment that results in control. We believe that this approach is preferable to the alternative considered by the Board (i.e., sum of the *fair values* of the earlier investment at the date control is obtained plus the amount paid for the investment that results in control, with recognition of a holding gain or loss) because of the potential difficulty in determining the fair value of securities represented by investments carried under the cost or equity method.

We do not object, however, to the recognition in earnings of unrealized holding gains and losses on earlier investments carried at fair value and classified as available-for-sale securities in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, on the date control is obtained. We concur with those Board members who believe "...that a transaction that results in obtaining control is a significant event that changes the fundamental nature of investments in equity securities held before acquisition of control and their representation in the consolidated financial statements...to delay recognition in earnings of the gains or losses on the investments held before the acquisition of control no longer is justifiable in the absence of major uncertainties about their measurement" (para. 121).

ATTACHMENT A

Consolidation Procedures

Changes in a Parent's Ownership Interest in a Subsidiary

We agree that any transaction which changes a parent's proportionate interest in a subsidiary and which does not result in a loss of control should be accounted for as a transaction in the equity of the consolidated entity with no gain or loss recognition. In addition to the reasons cited by the Board in para. 128, we refer to our response to the DM to further support this position:

Recognizing gain or loss on dilution is inconsistent with FIN 37 entitled, Accounting for Translation Adjustments upon Sale of Part of an Investment in a Foreign Entity. Specifically, FIN 37 requires that 'If an enterprise sells part of its ownership interest in a foreign entity, a pro rata portion of the accumulated translation adjustment component of equity attributable to the investment shall be recognized in measuring gain or loss on the sale" (para. 2), but that partial liquidation (if the liquidation proceeds are distributed to the parent) does not require gain/loss recognition.

Conforming Accounting Policies and Fiscal Periods

Accounting policies

For purposes of consolidated financial statements, we believe that conformity of accounting policies among a parent and its subsidiaries should be allowed and encouraged, not required. The paramount issue is whether the consolidated financial statements fairly present the consolidated entity's financial position and results of operations. A fair presentation may not be assured if a subsidiary is required to have the same policy as its parent, especially if the parent and subsidiary operate in two different industries and operating environments. In that case, a footnote disclosure should provide sufficient information for the reader to determine the nature of the different accounting policies and their impact on the financial statements.

Fiscal periods

There is no denying that consolidated financial statements are most relevant when all of the members of the consolidated group have the same fiscal year end. Advances in telecommunications and management information systems no longer warrant the three-month accommodation period allowed by ARB No. 51. The benefits, however, of technological advancements may not be apparent in all countries in which a consolidated subsidiary operates, especially for multi-national companies with operations in developing countries. For example, in some of these countries the telecommunications infrastructure is in early stages of completion. Thus, the *timely and effective* transmission of information to U.S. parent companies is not yet achievable.

ATTACHMENT A

Consolidation Procedures

Conforming Accounting Policies and Fiscal Periods (con't.)

Additionally, technological advances have not always changed some fundamental business operations and practices, especially in the international forum. For example, traditional review procedures by regulatory authorities, auditors and local management, which are performed before the information is submitted to the parent company for inclusion in consolidated financial statements, require some time to insure completeness and reliability of data.

At Pfizer, many of our foreign operations maintain their books in accordance with local, statutory accounting principles. The local Pfizer accountants, almost all of whom are local nationals who have received their education and training in local accounting principles, convert the statutory books to U.S. GAAP. This statutory-to-U.S. GAAP adjustment process requires time and effort on the part of our foreign colleagues. In addition, as U.S. GAAP is not the specific expertise of our foreign colleagues, the U.S. consolidations group performs a review of the U.S. GAAP information after it is received from the foreign locales in order to insure its conformity with U.S. GAAP. This review, and necessary follow-up correspondence on issues with our foreign colleagues, requires a significant effort which takes time.

In our view, a one-month accommodation period would result in reported results that would not be materially different than those using the same fiscal period, while providing a reasonable accommodation for financial statement preparers.

Transition and Effective Date

The proposed Standard does not provide any guidance on how to account for the effects of conforming the fiscal years of subsidiaries to those of the parent company in the year the Standard is adopted. For example, the consolidated financial statements of an entity with a December 31 fiscal year end includes subsidiaries with October 31 fiscal year ends. In the year the Standard is adopted, should the consolidated statement of income include 14 months of the subsidiaries' activity? Should the consolidated statement of income include 12 months of the subsidiaries' activity, with net income or loss for 2 months activity recorded directly to consolidated retained earnings supplemented with a proforma statement of income for those 2 months as a footnote disclosure?