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September 30, 2010

Technical Director
File reference No 1810-100
Financial Accounting Standards Board
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Pfizer is a research-based, global pharmaceutical company with its principal place of business in New York. We develop, manufacture and market leading prescription medicines for humans and animals, as well as nutritional products and many of the world's best-known consumer products. The Company's 2009 total revenues were \$50 billion and its assets were \$213 billion. We appreciate the opportunity to respond to the FASB Exposure Draft (ED) on *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*.

Summary

Pfizer supports the Board's efforts to improve the understandability and comparability of financial information, as well as the Board's goal of convergence of U.S. GAAP and International Financial Reporting Standards.

We urge the FASB to delay issuing revised guidance for financial instruments until the objective of the joint project is achieved—that is, the development of a converged financial reporting model for financial instruments. We have seen the disruption and confusion caused by fair value accounting during the global economic crisis and cannot support the expanded use of fair value accounting, (particularly with changes in fair value being reported predominately in net income) if an agreed-upon model cannot be developed by the world's most prominent accounting *experts*.

We know that the needs of users are diverse and that both amortized cost and fair value provide useful information. However, changes in accounting and reporting require substantial investment by preparers to implement the new requirements and to ensure that financial statement users appropriately absorb the changes. Until convergence can be reached we recommend making only targeted changes to address widespread ambiguity or burden, and/or to respond to industry-specific concerns.

We appreciate your consideration of these comments. We would be happy to discuss these matters further or to meet with you if it would be helpful.

Sincerely,

Loretta V. Cangialosi

Loretta V. Cangialosi
Senior Vice President and Controller

cc:

Frank D'Amelio
Senior Vice President and Chief Financial Officer

Pfizer's Comments on FASB Exposure Draft (ED) on Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities

Accounting for Financial Instruments

We cannot support the expanded use of fair value, particularly fair value with changes in fair value reported in net income, as the proposal:

- Does not represent a converged view with the IASB
- Will require substantive cost for the ongoing development of fair value measurements, particularly measurements requiring the use of unobservable inputs, and for the requisite audit effort
- Will introduce greater subjectivity and risk into the balance sheet and income statement
- Will exacerbate the expectation gap about the relevance, reliability and timeliness of financial statement information
- Will not provide any incremental predictive value for users

Some specific comments:

We believe that fair value is the best measure of a financial instrument when such measurement is reliably determinable and indicative of probable future cash inflows and outflows. Unfortunately, this proposed standard calls for the use of fair value recognized through net income in cases where one or both of these conditions are absent. Further, the presentation of dual measurements on the face of the balance sheet for certain financial instruments will be confusing.

- Available-for-Sale Investments – For investments currently classified as “available-for-sale investments,” we object to changes in fair value being recognized in net income, except for other-than-temporary impairments. Since these investments are already accounted for at fair value and since the changes in fair value are already reported and disclosed as part of other comprehensive income, (which will increase in prominence with the issuance of the proposed standard on comprehensive income), we believe that the proposal to recognize the fair value changes in net income achieves only one purpose—increased volatility of net income—for no incremental benefit. We do not believe that the changed requirements provide any additional predictive value to users of financial statements because no new information is being provided.
- Cost Method Investments – For investments currently carried at cost (private equity investments), we object to the application of fair value accounting in all cases (except for measuring impairments), and particularly for the application of fair value with changes in fair value being recognized in net income. The development of fair value for these investments is costly, highly subjective and of dubious value to users of the financial statements, particularly if monetization is not a probable, near-term outcome. If targeted improvements are necessary to the impairment model, to fair value disclosures and/or for certain industries, then address those issues directly.
- Equity Method Investments – For investments currently reported under the equity method of accounting, we object to the application of fair value accounting to equity investments where a company exerts significant influence and where the operations of the investee are unrelated to the company's consolidated operations. First, we are concerned about the implementation of the term “unrelated.” The ability to exert significant influence is a significant right and

maybe the mere existence of such a right makes the operations “related” to the consolidated entity. Second, the substantive nature of these investments suggests that while there may be a right to sell the equity asset, it is not the likely outcome and therefore not a probable future cash inflow. As such, the use of fair value accounting with changes in fair value recognized in net income is neither relevant nor representationally faithful.

- Presentation of Dual Measurements – Presenting both amortized cost and fair value information on the face of the balance sheet for financial instruments carried at fair value with changes in fair value recognized in other comprehensive income implies that both measurements are equally important. It is not critical, for example, to know the fair value of debt investment and loan assets and borrowings if the company’s management intent is to collect or pay the instruments’ contractual cash flows. While there may be a right to sell the debt asset or redeem the borrowing liability before the maturity date, such outcomes are not representative of the probable cash inflows and outflows and, therefore, fair value is neither relevant nor representationally faithful. As such, inclusion on the face of the balance sheet provides inappropriate prominence to the fair value measure and, indeed, the commingling of such information would likely prove confusing.

Derivative Instruments and Hedging Activities

- Qualitative Assessments – We appreciate the ED modifying the effectiveness threshold from highly effective to reasonably effective, but request that the assessment of “reasonably effective” be limited to a qualitative assessment approach only.

The risk of regulatory second-guessing and/or auditor discomfort will lead to the continued use of a quantitative assessment approach. We believe that the simplification that we mutually desire can only be achieved with an explicit removal of the quantitative approach.

- Hedge Effectiveness – The proposed change to record ineffectiveness for common hedge transactions where the critical terms of the hedged item and the hedging instrument match (what has been referred to in practice as “critical terms match”, or, in the case of interest rate swaps, the so called “short cut method”) does not simplify hedge accounting. Measuring what is minimal ineffectiveness requires additional intellectual and systems effort for something that is intuitively obvious. We recommend that no ineffectiveness should be recognized in net income where the critical terms of the hedged item and the hedging instrument **substantially** match.
- De-designation of hedging relationships – We request that companies be permitted to designate and de-designate hedging relationships at will as long as the contemporaneous documentation requirements are met. The ED’s prohibition will be costly for no apparent benefit. This requirement imposes an uneconomic condition on a company that is trying to respond to economic conditions. The requirement for contemporaneous documents forestalls any notions of earnings management and users of the financial statements are in a neutral position except for the additional costs incurred by the company.

In all cases, however, please clarify the application of this requirement to net investment hedges.

Company's Own Debt

We appreciate the ability to use amortized cost or fair value through other comprehensive income for borrowings that meet certain conditions. However, the condition that requires the entity to assert that its business strategy is to collect and or pay the related contractual cash flows (rather than to sell the financial liability with a third party) based on how the entity manages its financial instruments (rather than its intent for an individual instrument) is onerous for no apparent reason. Companies manage their debt issues individually **and** in tandem.

Likewise, forcing a company to assert that it "**shall**" hold instruments for a significant portion of their contractual terms and that it "**shall**" not subsequently change its decision made at initial recognition does not reflect management responses to changes in market and company conditions. We observe such an assertion also gives potential buyers and sellers of a company's debt a market advantage in knowing the company intention, when debt is either issued or considered for repurchase, to the likely detriment of the company's shareholders.

We recommend that the assertion be changed to "**expect**" to hold instruments for a significant portion of their contractual terms, etc. Further, we request that the ED acknowledge that a debt instrument may be settled with the counterparty before the maturity date through open market purchase (as well as the noted existence of a formal call or put option).

Presentation and Disclosure

The basic financial statements provide a holistic overview of a company's financial position and performance. It is vital that this initial and primary communication be as clear and concise as possible, yet supplemented by detailed, contextual information in the footnotes.

We believe that the disclosure requirements of this proposal will overwhelm the reader with information more appropriately conveyed through the footnotes, where comprehensive explanations and context are possible.