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December 15, 2010

Technical Director
File Reference No 1850-100
FASB
401 Merritt 7
P. O. Box 5116
Norwalk, CT 06856-5116

Subject: Proposed Accounting Standards Update: *Leases (Topic 840)*

Dear Technical Director:

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. As of and for the year ending December 31, 2009, we had total revenues of \$50 billion, total assets of \$213 billion and rental expense of \$364 million. The majority of our Company's leases are classified as operating leases and do not convey rights of ownership. We appreciate the opportunity to respond to the FASB Exposure Draft on Leases (Topic 840).

We appreciate the time and consideration that the FASB has given to the topic of leasing in prior years, and more recently, the review of comments received on the March 2010 discussion paper.

For clarity, our comments in this letter are generally limited to the proposals for lessees.

General Comments

We understand the motivation of this proposed standard for leases. We know that:

- Leasing is an important source of finance
- The current model for leasing has been fairly criticized for its shortfalls and so-called 'bright-line' distinctions
- The current leasing rules can encourage structuring to achieve or avoid certain outcomes

We agree, with certain objections, that the model created by the Boards for lessees is theoretically sound and would represent some improvement to the current model.

However, in looking at trying to balance the improvement that the standard represents, the amount of change required to implement this improvement with the desire for convergence of US GAAP and IFRS, we ask the Boards to consider the following factors and make a reasoned assessment of the urgency of such a standards as well as a cost benefit analysis:

- Current lease accounting for US GAAP and IFRS are substantively similar and therefore convergence is not a significantly pressing driver.
- The implementation of this standard will require significant resources by not only lessors, but also lessees as a result of the need to now track each of these leases

- and perform the necessary calculations for not only core and important leases for assets used in running essential business activities where we see that the standard does represent an improvement but also to track non-core leases such as water coolers, coffee machines, etc., which we believe do not add real value to an understanding of the company's financial condition. Resources within companies today are becoming scarcer given the worldwide recession and most companies are focused on value drivers for shareholders and ensuring that appropriate investment is made in those areas. While we understand that the Boards' mission is the improvement of financial reporting, however, given that financial reporting does not in itself exist in a vacuum but competes for resources of dollars and time, we do believe that such improvement should represent increased, measurable value to investors given that there is significant cost to this improvement.

Specific Recommendation

We believe that as consensus seems within reach and as the model, with certain modifications, would represent an improvement in financial reporting completion of the project is reasonable. But, we believe that implementation of the finalized standard should be postponed indefinitely.

We don't believe that the expenditure of significant resources is warranted for the reasons provided above. As an alternative, we suggest that a limited scope improvement project be initiated that would:

- Address troublesome issues identified between US GAAP and IFRS rules
- Seek to capture more leases on the balance sheet simply by lowering the thresholds for capital lease accounting

While recognizing that this will not accomplish the full merits of balance sheet accounting, our suggestion might actually capture the bulk of the benefits for a mere fraction of the cost and disruption. And, when the global economies improve, the implementation of the superior and more complete ED model will be less dramatic.

Questions for Respondents

For the reasons explained above, we do not support implementation of the proposed standard at this time. However, as we would like to see an improved leasing model developed, we have offered our comments to the questions posed.

We appreciate this opportunity to comment and encourage the FASB to continue to engage its constituents.

Sincerely,

Loretta V. Cangialosi

Loretta V. Cangialosi
Senior Vice President and Controller

Attachments

cc: Frank D'Amelio
Executive Vice President and Chief Financial Officer

Questions for Respondents

Note: We have limited our responses to the guidance for lessees

For the reasons explained in our cover letter, we do not support implementation of the proposed standard at this time. However, within the context of the Exposure Draft, we offer the following comments.

1. Lessees

- (a) Do you agree that a lessee should recognize a right-of-use asset and a liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?**
- (b) Do you agree that a lessee should recognize amortization of the right-of-use asset and interest on the liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?**

(a)

We agree that upon entering a lease contract, a lessee has acquired the right to use an asset and has incurred an obligation to make lease payments. And, we concur that recognizing the asset and the obligation on the balance sheet would increase the visibility of this asset financing approach.

(b)

We agree that any right-to-use asset should be allocated to the income statement on a systematic and rationale basis. We agree that interest should be recognized on any lease obligation.

3. Short term Leases

This exposure draft proposes that a lessee or a lessor may apply the following simplified requirements to short-term leases, defined in Appendix A as leases for which the maximum possible lease term, including options to renew or extend, is 12 months or less:

- (a) At the date of inception of a lease, a lessee that has a short-term lease may elect on a lease-by-lease basis to measure, both at initial measurement and subsequently, (i) the liability to make lease payments at the undiscounted amount of the lease payments and (ii) the right-of-use asset at the undiscounted amount of lease payments plus initial direct costs. Such lessees would recognize lease payments in the income statement over the lease term (paragraph 64)**
- (b) At the date of inception of a lease, a lessor that has a short-term lease may elect on a lease-by-lease basis not to recognize assets and liabilities arising from a short-term lease in the statement of financial position, nor derecognize any portion of the underlying asset. Such lessors would continue to recognize the underlying asset in accordance with other topics and would recognize lease payments in the income statement over the lease term (paragraph 65)**

Do you agree that a lessee or a lessor should account for short-term leases in this way? Why or why not? If not, what alternative approach would you propose and why.

(a)

We respectfully request that a full exemption be provided for these short-term leases. These leases should follow the current rules for operating lease accounting; that is, no balance sheet gross up.

We believe that leases with a *maximum* lease term of 1 year cannot possibly represent leases of "core" assets (that is, assets central to the organization's revenue producing activities) as the risk to the company's operations would far exceed any accounting presentation benefit and as the cost to the company would likely prove prohibitive. As such, we don't believe that the ED requirements for these short-term leases pass the cost/benefit test.

4. Definition of a lease

This exposure draft proposes to define a lease as a contract in which the right to use a specified asset or assets is conveyed, for a period of time, in exchange for consideration (Appendix A, paragraphs B1-B4 and BC29-BC32). This exposure draft also proposes guidance on distinguishing between a lease and a contract that represents a purchase or sale (paragraphs 8, B9, B10 and BC59-BC62) and on distinguishing a lease from a service contract (paragraphs B1-B4 and BC29-BC32).

Lease definitions

- (a) Do you agree that a lease is defined appropriately? Why or why not? If not, what alternative definition would you propose and why?**
- (b) Do you agree with the criteria in paragraphs B9 and B10 for distinguishing a lease from a contract that represents a purchase or sale? Why or why not? If not, what alternative criteria would you propose and why?**
- (c) Do you think that the guidance in paragraphs B1-B4 for distinguishing leases from service contracts is sufficient? Why or why not? If not, what additional guidance do you think is necessary and why?**

(a)

We generally agree with the definition of a lease, but please see our response to (c) below.

(b)

Yes.

(c)

In B2, a lessee would be required to evaluate whether or not a lessor has a "practice" of substituting another asset for the underlying asset. We don't agree that this should be among the criteria for consideration and request that this "(b)" portion of the analysis be dropped. As revised, the sentence in B2 would read: "An asset is implicitly 'specified' if it is infeasible or impractical for a lessor to provide alternative assets in place of the underlying asset during the lease term."

In B3, the ED states that "a contractual provision (contingent or otherwise) that permits or requires a supplier to substitute other assets for any reason on or after a specified date does not preclude lease treatment before the date of substitution."

We assume that the lease term in the “or otherwise” situation would be only up to the “specified date.”

5. Scope exclusions

This exposure draft proposes that a lessee or a lessor should apply the proposed guidance to all leases, including leases of right-of-use assets in a sublease, except leases of intangible assets, leases of biological assets and leases to explore for or use minerals, oil, natural gas and similar not-regenerative resources (paragraphs 5 and BC33-BC46).

Do you agree with the proposed scope of the proposed guidance? Why or why not? If not; what alternative scope would you propose and why?

Yes. We understand the boards’ position on these scope exclusions as Topic 840 applies only to PP&E arrangements and that these scoped out areas are being further deliberated and potentially subject to a separate Topic.

6. Contracts that contain service components and lease components

This exposure draft proposes that lessees and lessors should apply the guidance in proposed Accounting Standards Update, *Revenue Recognition* (Topic 605): *Revenue from Contracts with Customers*, to a distinct service component of a contract that contains service components and lease components (paragraphs 6, B5-B8 and BC47-BC54). If the service component in a contract that contains service components and lease components is not distinct:

- (a) The FASB proposes the lessee and lessor should apply the lease accounting requirements to the combined contract.**
- (b) The IASB proposes that:**
 - (i) A lessee should apply the lease accounting requirements to the combined contract**
 - (ii) A lessor that applies the performance obligation approach should apply the lease accounting requirements to the combined contract**
 - (iii) A lessor that applies the derecognition approach should account for the lease component in accordance with the lease requirements and the service component in accordance with the guidance in the exposure draft on revenue from contracts with customers.**

Do you agree with either approach to accounting for leases that contain service and lease components? Why or why not? If not, how would you account for contracts that contain both service and lease components and why?

We agree that in situations where the service and lease components are not distinct that the lessee should apply lease accounting requirements to the combined contract.

7. Purchase Options

The exposure draft proposes that a lease contract should be considered terminated when an option to purchase the underlying assets is exercised. Thus, a contract would be accounted for as a purchase (by the lessee) and a sale (by the lessor) when the purchase option is exercised (paragraphs 8, BC63 and BC64)

Do you agree that a lessee or a lessor should account for purchase options only when they are exercised? Why or why not? If not, how do you think that a lessee or a lessor should account for purchase options and why?

Yes. We believe that a lessee should only account for purchase options when they are exercised as that represents the point or intent of title transfer. A purchase option is assumed to be completely discretionary on the part of a lessee unless there are conditions (which would not make it optional) and therefore should only be accounted for when exercised.

Measurement

This exposure draft proposes that a lessee or a lessor should measure assets and liabilities arising from a lease on a basis that:

(a) assumes the longest possible term that is more likely than not to occur, taking into account the effect of any options to extend or terminate the lease (paragraphs 13, 34, 51, B16–B20 and BC114–BC120).

(b) includes in the lease payments contingent rentals and expected payments under term option penalties and residual value guarantees specified by the lease by using an expected outcome technique (paragraphs 14, 35, 36, 52, 53, B21 and BC121–BC131). Lessors should only include those contingent rentals and expected payments under term option penalties and residual value guarantees that can be reliably measured.

(c) is updated when changes in facts or circumstances indicate that there is a significant change in the liability to make lease payments or in the right to receive lease payments arising from changes in the lease term or contingent payments, including expected payments under term option penalties and residual value guarantees, since the previous reporting period (paragraphs 17, 39, 56 and BC132–BC135).

8. Lease Term

Do you agree that a lessee or a lessor should determine the lease term as the longest possible term that is more likely than not to occur taking into account the effect of any options to extend or terminate the lease? Why or why not? If not, how do you propose that a lessee or a lessor should determine the lease term and why?

We do not agree with using the longest possible term that is more-likely-than-not to occur. We propose that lessees should use the contractual term without consideration of renewals or extensions (except in limited situations as provided for in current US GAAP literature) or, less desirably, the inclusion of renewals or extensions only to the extent that they are “probable” or “reasonably assured.”

This proposed threshold for initial recognition and reassessment could result in a right-to-use asset that actually doesn't represent a contractual right and a lease obligation that doesn't meet the definition of liability. We know that the Boards will recognize this objection as it is addressed in the basis for conclusions. The question is - - which is better/worse - - that the asset and liability are potentially understated or overstated. The Boards have favored a "practical solution" that violates, we believe, that framework. We favor a practical solution that doesn't. Further, since a company pays higher amounts when terms are shorter and less certain, we believe that there are sufficient safeguards against gamesmanship.

Alternatively, if the Boards continue to believe that some renewals or extensions should be included, we favor a more visible threshold of "probable" or "reasonably assured." In fact, the recognition criteria outlined in paragraphs B18 – B20 in the proposed standard wouldn't require significant revision on the change as several of the conditions seem to support a higher standard that is closer to reasonably assured (e.g., 'underlying asset is crucial to lessee's operations').

9. Lease payments

Do you agree that contingent rentals and expected payments under term option penalties and residual value guarantees that are specified in the lease should be included in the measurement of assets and liabilities arising from a lease using an expected outcome technique? Why or why not? If not, how do you propose that a lessee or a lessor should account for contingent rentals and expected payments under term option penalties and residual value guarantees and why?

Do you agree that lessors should only include contingent rentals and expected payments under term option penalties and residual value guarantees in the measurement of the right to receive lease payments if they can be reliably measured? Why or why not?

No. Contingent rentals and expected payments under term option penalties and residual value guarantees do not meet the definition of a liability and the measurement standard for the right-to-use asset is not fair value. Please consider our comments to question 8 above.

10. Reassessment

Do you agree that lessees and lessors should remeasure assets and liabilities arising under a lease when changes in facts or circumstances indicate that there is a significant change in the liability to make lease payments or in the right to receive lease payments arising from changes in the lease term or contingent payments (including expected payments under term option penalties and residual value guarantees) since the previous reporting period? Why or why not? If not, what other basis would you propose for reassessment and why?

Yes.

Sale and leaseback

This exposure draft proposes that a transaction should be treated as a sale and leaseback transaction only if the transfer meets the conditions for a sale of the underlying asset and proposes to use the same criteria for a sale of those used to distinguish between purchases or sales and leases. If the contract represents a sale of the underlying asset, the leaseback also would meet the definition of a lease, rather than a repurchase of the underlying asset by the lessee (paragraphs 66-67, B31 and BC160-BC167)

11. Do you agree with the criteria for classification as a sale and leaseback transaction? Why or why not? If not, what alternative criteria would you propose and why?

Yes.

Presentation

This exposure draft proposes that lessees and lessors should present the assets, liabilities, income (or revenue), expenses and cash flows arising from leases separately from other assets, liabilities income, expenses and cash flows (paragraphs 25-27, 42-45, 60-63 and BC142-BC159)

12. Statement of financial position

- a) Do you agree that a lessee should present liabilities to make lease payments separately from other financial liabilities and should present right-of-use assets as if they were tangible assets within property, plant and equipment but separately from assets that the lessee does not lease (paragraphs 25 and BC143-BC145) why or why not? If not, do you think that a lessee should disclose this information in the notes instead? What alternative presentation do you propose and why?**
- b) Do you agree that a lessor applying the performance obligation approach should present underlying assets, rights to receive lease payments and lease liabilities gross in the statement of financial position, totaling to a net lease asset or lease liability (paragraphs 42, BC148 and BC149)? Why or why not? If not, do you think that a lessor should disclose this information in the notes instead? What alternative presentation do you propose and why?**
- c) Do you agree that a lessor applying the derecognition approach should present right to receive lease payments separately from other financial and should present residual assets separately within property, plant and equipment (paragraphs 60, BC154 and BC155)? Why or why not? Do you think that a lessor should disclose this information in the notes instead? What alternative presentation do you propose and why?**
- d) Do you agree that lessors should distinguish assets and liabilities that arise under a sublease in the statement of financial position (paragraphs 43, 60, BC 150 and BC156)? Why or why not? If not, do you think that an intermediate lessor should disclose this information in the notes instead?**

(a)

We believe that footnote disclosure of the elements described would be sufficient, with preparers always having the option to present those items on the face of the balance sheet.

13. Income Statement

Do you think that lessees and lessors should present lease income and lease expense separately from other income and expense in the income statement (paragraphs 26, 44, 61, and 62, BC146, BC151, BC152, BC157 and BC158)? Why or why not? If not, do you think that lessees should disclose that information in the notes instead? Why or why not?

We believe that footnote disclosure would be sufficient, with preparers always having the option to present those items on the face of the income statement.

14. Statement of Cash Flows

Do you think that cash flows arising from leases should be presented in the statement of cash flows separately from other cash flows (paragraphs 27, 45, 63, BC147, BC153, and BC159)? Why or why not? If not, do you think that a lessee or a lessor should disclose this information in the notes instead? Why or why not?

We believe that supplemental or footnote disclosure would be sufficient, with preparers always having the option to present those items separately in the body of the cash flow statement.

15. Disclosure

Do you agree that lessees and lessors should disclose quantitative and qualitative information that:

- a) Identifies and explains the amounts recognized in the financial statements arising from leases; and**
- b) Describes how leases may affect the amount, timing and uncertainty of the entity's future cash flows?**

(paragraphs 70-86 and BC168-BC183)? Why or why not? If not, how would you amend the objectives and why?

The required disclosures are excessive and will lead to more disclosure overload. We are also concerned about attempting to make all of these disclosures quarterly given the SEC time restrictions.

Also, as the new requirements will tend to frontload expenses (versus current accounting which is essentially a straight-line approach), we observe that the disconnect between actual cash payments and financial statement expense will significantly widen. We believe that the excessive disclosure requirements are an attempt, in part, to compensate for this outcome.

We like the principles-based nature of paragraph 70, but suggest that paragraph 70(b) be revised to read as follows: "describes how terms and conditions of current leases may affect the amount, timing and uncertainty of the entity's future cash flows."

Then, we suggest that all of the requirements found in paragraphs 71-77 be revised to be "suggestions for consideration" as to how best to meet the principles-based disclosure requirement in paragraph 70.

Transition

16.

- a) **The exposure draft proposes that lessees and lessors should recognize and measure all outstanding leases as of the date of initial application using a simplified retrospective approach (paragraphs 88-96 and BC186-BC199). Are these proposals appropriate? Why or why not? If not, what transitional requirement do you propose and why?**
- b) **Do you think full retrospective application of lease accounting requirements should be permitted? Why or why not?**
- c) **Are there any additional transitional issues the boards need to consider? If yes, which ones and why?**

(a)

We agree with the simplified retrospective approach as information presented in the financial statements from prior years would need to be revised to reflect the accounting requirements per the proposed standard. We don't believe the full retrospective application is required when the simplified approach should accomplish the stated objective. But, the Boards should recognize that even a simplified retrospective approach will require a significant effort on the part of preparers.

(b)

We do not object to permitting a full retrospective application.

(c)

The undertaking will be enormous and will require systems changes and perhaps the development of new tools. Please see also our comments in question 18 below.

Benefits and Costs

17.

Paragraphs BC200-BC205 set out the boards' assessment of the costs and benefits of the proposed requirements. Do you agree with the boards' assessment that the benefits of the proposals would outweigh the costs? Why or why not?

No. The implementation effort in terms of investment in new systems and time required will be significant. We believe that interested financial statement users have already developed models to factor in the obligations associated with operating leases. While these models may be subject to some level of inaccuracy, even if we implement the standard as written, the revised financial statement presentation will also have some level of inaccuracy too. We do not believe the improvement will outweigh the cost of implementation and ongoing maintenance, monitoring and controls that are necessitated by the proposal.

We project costs in the following areas, among others:

- Training and education of our finance and non-finance employees worldwide as well as the broader investing community
- System modifications and the likely need to develop a new system to capture all of the disparate, detailed information required for accounting, reporting and disclosure of leases
- Manual data collection efforts
- Critical resources applied to make sure that service arrangements and lease contracts are appropriately identified and distinguished from one another
- The development of new controls and monitoring systems as the analytical review of “rent expense” will no longer be straightforward and intuitive
- The development and dissemination of policies and procedures for inputs and assumptions and re-measurement triggers