Technical Director – File Reference 1205 - 001
Financial Accounting Standards Board
401 Merritt 7
P. O. Box 5116
Norwalk, CT 06856-5116

Subject: Exposure Draft – Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries, a replacement of ARB No. 51 (File Reference No. 1205-001)

To the Technical Director:

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 2004 total revenues were $54.5 billion and its assets were $123.7 billion. We appreciate the opportunity to respond to the Exposure Draft (ED) entitled Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries, a replacement of ARB No. 51.

We do not support the basic conclusions reached in the ED and therefore urge the Board to reconsider issuance of the ED as a final Statement of Financial Accounting Standards. We do not agree with the Board’s proposed approach to replace the parent company concept with the single economic unit concept for the reporting entity and the resultant changes in financial statement display and accounting for step transactions.

While we observe that the draft standard utilizes an approach that dates back to at least the early 1990’s as it was proposed in the October 1995 Exposure Draft, Consolidated Financial Statements: Policy and Procedures and the October 2000 Exposure Draft, Accounting for Financial Instruments with Characteristics of Liabilities, Equity or Both,
as well as in the field testing process in 2001, we have not observed a groundswell of support or general acceptance.

Moreover, we do not find the reasons for issuing this proposed statement particularly compelling. Among the reasons cited are diversity in practice for accounting for and reporting of noncontrolling interests in subsidiaries and improvement of the relevance and transparency of information provided to users of financial statements. The Board cites diversity in practice, but then acknowledges that noncontrolling interests have been reported most commonly as “mezzanine” items between liabilities and equity. When you then consider that those companies reporting the noncontrolling interest in subsidiaries as liabilities likely do so because the amounts are not material enough to justify a separate line item in the balance sheet, than we would suggest that diversity in practice may not be as widespread as has been suggested.

Additionally, we do not agree that the proposals in the ED would result in an improvement in the relevance and transparency of information provided to users of financial statements. The primary users of the consolidated financial statements are the shareholders of the parent company. Accordingly, presentation of the financial statements based on the parent company concept, which emphasizes the interests of the parent’s shareholders and reports the noncontrolling interests as outside of equity (because they have no equity interest in the parent company), is the more relevant approach. From the perspective of the noncontrolling shareholders, which have much more limited rights and interests than the controlling shareholders, the more relevant financial information is the subsidiary’s separate financial statements in which the noncontrolling shareholders have a direct interest.

We believe that the sweeping changes proposed by the board will not enhance the decision usefulness of the information presented to investors and creditors, nor will it result in an improvement in financial reporting that would justify the significant costs that would be imposed on financial statement preparers. The extensive footnote disclosures proposed would result in significant costs to prepare and would potentially be very confusing to financial statement users. In addition, the Standard as proposed would necessitate substantial reeducation efforts on the part of financial statement preparers, auditors and users of financial statements.

Attached are our comments addressing specific issues raised in the “Notice to Recipients of This Exposure Draft” as well as additional comments.

Very truly yours,

Loretta Cangialosi
Loretta V. Cangialosi
Vice President and Controller

Attachment
cc: Alan Levin
    Senior Vice President, Chief Financial Officer
Attachment
Exposure Draft-Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries (File Reference No. 1205-001)

QUESTIONS 1 AND 2—REPORTING NONCONTROLLING INTERESTS IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Question 1—Do you agree that the noncontrolling interest is part of the equity of the consolidated entity? If not, what alternative do you propose and why?

Pfizer Response

No. We do not agree that the noncontrolling interest is part of the equity of the consolidated entity. While the noncontrolling interest in a consolidated subsidiary does have an equity interest in some of the assets and liabilities included in consolidation (through their equity interest in a subsidiary), they have neither a debt or equity interest in the parent or other subsidiaries of the consolidated entity. In addition, the view that the noncontrolling interest is part of the equity of the consolidated entity does not take into account the basic differences between the rights of noncontrolling shareholders in a subsidiary of the reporting entity and the rights of shareholders in the parent company. Thus, we support the parent company concept which emphasizes the interests of the parent’s shareholders and views the noncontrolling interests as outside the equity of the consolidated entity.

We continue to believe that, if material, noncontrolling interests should be reported in the mezzanine section of the balance sheet between liabilities and equity. We would propose that the FASB conceptual framework be revised to incorporate a new element of financial statements for noncontrolling interests as a mezzanine item in consolidated financial statements. Because noncontrolling interests do not meet the definition of liabilities in paragraph 35 of FASB Concepts Statement No. 6 and, under the parent company concept, are not a component of equity of the consolidated entity, mezzanine reporting of noncontrolling interests would be more representationally faithful and relevant to the primary users of the consolidated financial statements – the parent company’s shareholders.

Question 2—Do you agree with the proposed requirement to present the noncontrolling interest in the consolidated statement of financial position within equity, separately from the parent shareholders’ equity? If not, what alternative do you propose and why?

Pfizer Response

No. As indicated in our response to Question 1, we view the parent company concept as the appropriate model for presenting consolidated financial statements and therefore feel
that the noncontrolling interest should not be presented within equity, separate from the parent shareholders’ equity or otherwise. Noncontrolling interests are more appropriately presented in the mezzanine section of the consolidated balance sheet.

**QUESTION 3—ATTRIBUTING CONSOLIDATED NET INCOME AND CONSOLIDATED COMPREHENSIVE INCOME TO THE CONTROLLING AND NONCONTROLLING INTERESTS**

**Question 3—** Do you agree with the proposed requirements for attributing net income or loss and the components of other comprehensive income to the controlling and noncontrolling interests? If not, what alternative do you propose and why?

**Pfizer Response**

We do not agree that losses that exceed the noncontrolling interest in the subsidiary’s equity should be attributed to the noncontrolling interest (creating a deficit noncontrolling interest) since the noncontrolling interest would generally not be obligated to make good on such excess losses. We would suggest for consideration as an alternative approach, attributing excess losses to the noncontrolling interest only in instances where the noncontrolling interest has guaranteed obligations of the subsidiary or is committed to make an additional investment in the subsidiary. The proposed alternative approach is analogous to the accounting guidance for an equity method investor (APB 18, paragraph 19(i)) and would better reflect the noncontrolling interest’s actual economic exposure to the underlying losses.

**QUESTION 4—CHANGES IN OWNERSHIP INTERESTS IN A SUBSIDIARY**

**Question 4—** Do you agree that changes in ownership interests in a subsidiary after control is obtained that do not result in a loss of control should be accounted for as equity transactions? If not, what alternative do you propose and why?

**Pfizer Response**

No. Since the noncontrolling interest has no ownership interest in the parent company, transactions with the noncontrolling interests should be treated like transactions with other third parties and not as treasury stock transactions. Accordingly, where a parent decreases its ownership percentage in a subsidiary (without loss of control) by (a) selling some of its subsidiary’s shares or (b) causing the subsidiary to issue shares to noncontrolling interests, a gain (loss) should be recognized if the proceeds exceed (are less than) the carrying amount of the interest acquired by the noncontrolling interest.

**QUESTIONS 5 AND 6—LOSS OF CONTROL OF SUBSIDIARIES**

**Question 5—** Do you agree that any gain or loss resulting from the remeasurement of a retained investment in a former subsidiary should be recognized in income of the period? If not, what alternative do you propose and why?
Pfizer Response

No. We do not agree that any gain or loss resulting from the remeasurement of a retained investment in a former subsidiary should be recognized in income since the principles for revenue and gain recognition in FASB Concepts Statement No. 5, par. 84, that require revenues be realized or realizable, will not be met.

Moreover, under the proposed approach, an entity could recognize a remeasurement gain or loss when it loses control of a subsidiary in the absence of a transaction, such as expiration of an agreement that gave control to the parent, granting of veto rights to a minority shareholder, etc. In such cases, the requirements for revenue and gain recognition would not have been met since revenue would not be realized or realizable and the earnings process would not have been completed.

As an alternative, we propose that, consistent with current U.S. GAAP, the gain or loss from sale of a former subsidiary should be equal to the difference at the date of sale between the selling price and the carrying amount of the shares sold.

The ED notes in the Basis for Conclusions (paragraph B34) that the Board decided that accounting for investments that no longer qualify for equity method accounting under APB 18 is outside the scope of this project. Nevertheless, we feel that the proposed approach in the ED for recognizing a remeasurement gain (loss) on a retained investment in a former subsidiary would create a fundamental disparity between the accounting for an equity method investment when there is a loss of the ability to exercise significant influence, and that the proposed approach and the resultant disparity should be reconsidered.

As noted in Question 4, this proposed Statement would require that once control of a subsidiary is obtained, changes in ownership interests in that subsidiary that do not result in a loss of control be accounted for as equity transactions. Therefore, no gain or loss would be recognized in consolidated net income. In contrast, as noted in Question 5, a decrease in ownership interests resulting in the loss of control of a subsidiary would result in any gain or loss being recognized in consolidated net income. The Board is aware that differences in accounting that depend on whether a change in control occurs could create opportunities for entities to structure transactions to achieve a particular accounting result.

Therefore, this proposed Statement includes factors to consider for determining whether multiple arrangements that result in a loss of control should be accounted for as a single arrangement (refer to paragraphs B35 and B36).

Question 6—Do you agree with the proposed guidance for determining whether multiple arrangements should be accounted for as a single arrangement? If not, what alternative do you propose and why?
Pfizer Response

Yes, we agree with the proposed guidance for determining whether multiple arrangements should be accounted for as a single arrangement. However, we observe that in the Basis for Conclusions of the ED (paragraph B36), the Board seems to be undermining the need for such guidance when it points out that the opportunity to conceal losses through structuring should be reduced by the requirements of Statements 142 and 144.

**QUESTION 7—REPORTING EARNINGS PER SHARE**

**Question 7**—Do you agree that earnings per share amounts should be calculated using only amounts attributable to the controlling interest? If not, what alternative do you propose and why?

Pfizer Response

Yes. Reporting earnings per share from the perspective of the common shareholders of the parent company is the most relevant and decision-useful measure and seems to us to be contradictory to the economic unit model on which the Board’s proposals are based.

**QUESTIONS 8–12—DISCLOSURES**

**Question 8**—Do you agree that disclosure of the total amounts of consolidated net income and consolidated comprehensive income, and the amounts of each attributable to the controlling interest and the noncontrolling interest should be required? If not, why?

**Question 9**—Do you agree that disclosure of the amounts attributable to the controlling interest should be required? If not, why?

**Question 10**—Do you agree that a reconciliation of the changes in the noncontrolling interest should be required? If not, why?

**Question 11**—Do you agree that disclosure of a separate schedule that shows the effects of any transactions with the noncontrolling interest on the equity attributable to the controlling interest should be required? Please provide the basis for your position.

If control of a subsidiary is lost, this proposed Statement would require that the parent disclose (a) the amount of any gain or loss recognized on the loss of control and (b) the caption in the income statement in which that gain or loss is recognized (if not separately presented on the face of the income statement). If the parent retains an investment in the former subsidiary, this proposed Statement also would require disclosure of the portion of the gain or loss related to the remeasurement of the retained investment separately from the disclosure of the total gain or loss recognized.

**Question 12**—Do you agree that disclosure of the gain or loss recognized on the loss of
control of a subsidiary should be required? If not, why?

Pfizer Response – Our combined response to Questions 8 – 12 is as follows:

We fail to see how the extensive disclosures proposed in the ED will enhance the decision-usefulness and relevance of the financial statements to the primary users of the financial statements, i.e., the shareholders and creditors of the parent company. As we have stated above, the most relevant presentation of consolidated financial statements is one based on the parent company model that best meets the information needs of the parent’s shareholders. The extensive disclosures proposed by the ED would add considerable cost and introduce needless complexity into the preparation of the financial statements. In addition, the new presentation and disclosures are likely to be very confusing to users of financial statements and to require significant educational efforts. We are highly skeptical as to whether the added disclosures would provide decision-useful and relevant information to either the parent’s shareholders or the noncontrolling interests. Since noncontrolling shareholders are shareholders of a subsidiary, the subsidiary’s separate financial statements are the ones that provide the best information in which the noncontrolling shareholders have a direct interest.

**Question 13—Transition**

The requirements of this proposed Statement would be applied retrospectively except in limited circumstances for which the Board believes retrospective application is likely to be impracticable (refer to paragraphs B48–B50).

*Question 13—Do you agree with the proposed transition requirements? If not, what alternative do you propose and why?*

**Pfizer Response**

Yes. We agree with the proposed transition requirements.

**Other Issues**

**Allocation of Goodwill Impairment Losses**

The ED and Statement 141(R) would amend Statement 142 to require that if an entity incurs a goodwill impairment loss in a reporting unit that includes one or more partially owned subsidiaries, that the impairment loss should be allocated to the controlling and noncontrolling interests on a pro rata basis using the relative carrying values of goodwill assigned to them.

There are several practical problems inherent in this approach. Firstly, goodwill arising in the acquisition of a subsidiary with noncontrolling interests would become part of the goodwill grouped at the higher *reporting unit* level and might not be separately identifiable. Then, for companies such as Pfizer with numerous international subsidiaries,
it is not usual to have a subsidiary operating businesses that are part of multiple reporting units. If a business operating within that subsidiary is then sold, than a portion of the total reporting unit goodwill would have to be included in the carrying amount of the business in determining gain or loss on disposal. That allocation of goodwill would be based on the relative fair values of the business sold and the portion of the reporting unit retained and may or may not be comparable to amounts of goodwill originally recorded in the acquisition of the particular business.

It appears to us that the proposed approach to allocate goodwill impairment losses to controlling and noncontrolling interests will present practical problems and due to the complexities involved if the Board retains this requirement, than we would suggest that a comprehensive illustrative example be included in the final Statement.

Allocation of Net Income and Losses to Variable Interest Entities

The Board considered, but as acknowledged in paragraph B19, did not reach a decision on how attribution of net income or loss and the components of Other Comprehensive Income should be applied to variable interest entities. FASB Interpretation No. 46 (R), Consolidation of Variable Interest Entities, requires that the consolidation procedures in ARB 51 be followed after initial recognition. However, the lack of more detailed guidance on how net income and loss should be allocated between the primary beneficiary and the noncontrolling variable interest is likely to lead to different interpretations and diversity in practice. Therefore, we feel that these issues should be resolved prior to issuance of a final standard and that implementation guidance be included with illustrative examples.