November 22, 2016

Technical Director  
File Reference No. 2016-310  
FASB  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

Subject: Proposed Accounting Standards Update (ASU), Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities

Dear Technical Director:

Pfizer Inc. is a research-based, global biopharmaceutical company headquartered in New York. We discover, develop, manufacture and market leading medicines and vaccines, as well as many of the world’s best-known consumer healthcare products. In 2016, we reported revenues of $48.9 billion and total assets of $157 billion. In the normal course of business, we use both offset and hedge accounting as risk management tools.

Pfizer supports the Board’s objectives of improving the financial reporting of hedging relationships to better portray the economic results of an entity’s risk management activities in its financial statements, and of simplifying the application of hedge accounting guidance in current GAAP. We believe the proposed Accounting Standards Update (ASU) generally accomplishes the Board’s objectives.

We agree with the Board’s proposal to allow an entity to designate the hedged risk as the variability in cash flows attributable to changes in a contractually specified component in a cash flow hedge of a forecasted purchase or sale of a nonfinancial asset. We are subject to market risk with respect to commodity price fluctuations and the proposed change will permit us to manage that risk without the added complexity of including other price components in the designated hedge relationship, which can be based on local factors not typically included in the hedging instrument. We believe the proposed change would simplify the accounting for many companies that need to manage the risk of price changes in commodities required for their business.

We believe the proposal to allow entities to perform the initial prospective quantitative assessment of hedge effectiveness any time after hedge designation, but no later than the quarterly effectiveness testing date, using data applicable as of the date of hedge inception, will simplify hedge accounting. We believe allowing the additional time to perform the assessment using the data applicable as of the date of hedge inception will allow reporting entities time to perform a more thoughtful assessment without compromising the original intent of hedge accounting guidance. Also, allowing the subsequent use of qualitative effectiveness testing in cases where the initial quantitative testing was highly effective and factors do not change much will further simplify hedge accounting. We would like to also suggest the Board adopt a means to return to qualitative testing in cases where temporary changes in market conditions require quantitative effectiveness testing at some point during the life of the hedging relationship. This is because the principle should be qualitative assessment is permitted when the facts and circumstances permit qualitative assessment, and not be governed by a previous set of facts and circumstances.
When assessing whether the qualifying criteria for the critical terms match method are met for a group of forecasted transactions, the Board is proposing that an entity may assume that the hedging derivative matures at the same time as the forecasted transactions if both the derivative maturity and the forecasted transactions occur within the same 31-day time period. We agree with this concept, but believe that when assessing a group of forecasted transactions a 92-day time period may better reflect quarterly accounting period reporting required by the Securities and Exchange Commission.

We agree in most part with the Board’s proposed presentation of both effectiveness and ineffectiveness of fair value and cash flow hedges in the same line of the income statement as the related hedged item. However, for cash flows in which the hedged forecasted transaction is probable of not occurring, we are concerned that presenting the amounts reclassified from other comprehensive income into the income statement line that would have been used for the forecasted transaction, had it occurred, may cause confusion for financial statement users. We believe that current disclosure requirements provide sufficient information to financial statement users about the change in circumstances when this fact pattern exists.

In summary, we support the proposed guidance as we believe that it improves accounting by simplifying the current guidance. Further, we believe that the proposed component hedging guidance will enhance comparability because it will allow, or make it more practicable for companies to use hedge accounting in certain circumstances where they have been economically hedging risks without the benefit of hedge accounting.

We appreciate the Board’s consideration of our comments and would be pleased to discuss any of these matters further.

Loretta Cangialosi

Loretta V. Cangialosi
Senior Vice President and Controller

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

   Brian Byala
   Senior Vice President and Treasurer