July 15, 2016

Technical Director
File Reference No. 2016-230
FASB
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116


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 2015, we reported revenues of $48.9 billion and total assets of $167.5 billion.

Pfizer supports the intent underlying the Board’s broad Simplification Initiative; that is, to reduce the cost and complexity in financial reporting, while maintaining or improving the usefulness of the information provided to users of financial statements. We also are supportive of the FASB’s efforts to simplify the subsequent measurement of goodwill.

Although we generally support the proposed amendments, we believe there may be situations in which an entity wishes to continue to perform Step 2 of the current impairment testing model as it may provide a more accurate assessment of the actual impairment to goodwill. Therefore, in response to the proposal, we believe that Step 2 should be retained as an optional policy election.

Additionally, while we believe the proposed ASU is a step in the right direction towards simplification, we do not believe it goes far enough to achieve that worthy goal. We believe that goodwill should be either 1) recorded as a direct write-off at the time of acquisition (e.g. to retained earnings) or 2) amortized to expense over time. At a minimum, Pfizer believes the alternative accounting for goodwill allowed for private companies should be expanded to make it available to public companies as well.

In the past, when the Board has sought comments on goodwill, respondents expressed various opinions about its nature ranging from overpayment for an acquisition to expected future cash flows related to the synergies of the combination of two or more businesses. Respondents were also split on whether or not goodwill is a wasting asset. Some argued that, as a product of expected future cash flows, goodwill is a wasting asset that must be replenished or it will
diminish in value. Others pointed to their long-standing brand names as examples of the permanence of goodwill. Also, there is no way to directly and precisely measure goodwill, so US GAAP requires that its fair value be estimated by subtracting the fair value of the assets and liabilities in a reporting unit from the estimated fair value of the reporting unit as a whole.

ASU 2014-02, *Intangibles – Goodwill and Other (Topic 350) Accounting for Goodwill a consensus of the Private Company Council*, provides a goodwill accounting alternative that allows private companies to amortize goodwill over 10 years (or less, in certain cases). Companies that choose that alternative perform goodwill testing without applying Step 2 of the goodwill impairment test, consistent with the proposed guidance in this proposed ASU. Also, private companies that choose the alternative accounting may perform goodwill impairment tests at either the entity or the reporting unit level.

In its Background Information and Basis for Conclusions for ASU 2014-02, the Board discusses many of the concerns that public companies have with the current goodwill accounting requirements, as they applied for private companies. In its Background Information and Basis for Conclusions section the Board made a number of observations, including:

From the investors' perspective:

1. "Stakeholder [sic] feedback indicated that the benefits of the current accounting for goodwill do not justify the related costs." [Paragraph BC8]

2. "Outreach with users of private company financial statements further indicated that the current goodwill impairment test provides limited decision-useful information because most users of private company financial statements disregard goodwill and goodwill impairment losses in their analysis..." [Paragraph BC8]

3. "Because [sic] the underlying events and conditions leading to goodwill impairment generally manifest themselves long before the impairment is reported in a private company's financial statements, users indicated that they use other, more real-time information (including information obtained through their access to management) to identify the types of events that can lead to an impairment loss." [Paragraph BC9]

From the preparers' and auditors' perspective:

4. "Input [sic] through outreach with preparers and auditors indicated concerns over the cost and complexity involved in performing the current goodwill impairment test."[Paragraph BC8]

5. "Costs [sic] and complexities associated with goodwill impairment are not limited to the requirement to perform an annual impairment test but also apply to other aspects of the relevant guidance." [Paragraph BC10]

6. "After determining its reporting units, an entity assigns goodwill and individual assets and liabilities to each reporting unit. Allocation of shared assets, allocation of certain common liabilities (for example, debt and pensions), the treatment of intercompany charges, and the accounting for deferred taxes at each reporting unit level can be complex and challenging. Moreover, reporting units and the related allocation of assets and liabilities may have to be adjusted each time there is an internal reorganization, a new acquisition, or the sale of a part of the entity." [Paragraph BC10]

From the Private Company Council's perspective:

7. "The PCC concluded that the accounting alternative in this Update, when elected, will not result in a loss of decision-useful information to the users of private company financial statements but will reduce the cost and complexity associated with performing the current goodwill impairment test. The PCC received input through outreach with
private company stakeholders that the current accounting for goodwill impairment provides limited benefits for decision making because users often disregard goodwill and goodwill impairment losses in their analysis of a private company’s financial condition and operating performance. The PCC also concluded that impairments of goodwill under the accounting alternative may still provide confirmatory value to users when the fair value of the entity (or the reporting unit) is below its carrying amount. Accordingly, the amendments will not result in a loss of relevant information for users of private company financial statements." [Paragraph BC33]

Pfizer believes these observations hold true for both public and private entities, as they are rooted in the nature of goodwill, rather than an entity’s financing structure.

One FASB member (Lawrence Smith) dissented to the issuance of ASU 2014-02 “because he does not believe it is appropriate to create an accounting alternative for private companies without also exploring whether the alternative should be made available to public business entities.” [Mr. Smith’s Dissent] In his dissent, Mr. Smith also stated that he “believes the financial reporting system as a whole may be allocating considerably more resources to all aspects of accounting for goodwill than he believes is justified by the limited benefits of that accounting” and “For this reason, Mr. Smith believes the Board would be justified in entertaining a reconsideration of its existing accounting model for goodwill, despite the fact that the model has existed for a relatively short period of time. We agree with Mr. Smith’s assessment and would ask the Board to consider simplifying the accounting for goodwill by extending all provisions of the alternative goodwill accounting to public entities.

The following pages provide our responses to specific questions in the current proposed ASU, File No. 2016-230. We appreciate the Board’s consideration of our comments and would be pleased to discuss any of these matters further.

Loretta V. Cangialosi
Senior Vice President and Controller

cc: Frank D’Amelio
Executive Vice President and Chief Financial Officer
Appendix A

Questions for Respondents

Question 1: Do you agree with the proposed amendments to eliminate Step 2 from the goodwill impairment test? Why or why not?

Yes, we agree with the proposal to eliminate Step 2 from the mandatory requirements for goodwill impairment testing. We believe that the proposed amendments to eliminate Step 2 of the goodwill impairment rules would save costs and provide some simplification to the current goodwill accounting requirements without diminishing the usefulness of information provided to users of financial statements.

Question 2: Should the requirement to perform Step 2 of the current goodwill impairment test be retained as an option? Why or why not? If the use of Step 2 is optional, should an entity be allowed to apply that option by reporting unit or should it be a policy election at the entity level applicable to all reporting units?

Yes, we agree that Step 2 of the current goodwill impairment test should be retained as an option. If the use of Step 2 is optional, we believe it should be a policy election at the entity level applicable to all reporting, as we believe it is important to have consistency in policies across the entire Company. We are not aware of any compelling reason to have different goodwill impairment policies for different reporting units.

Question 3: Do you agree with the proposed amendments to require all entities to apply the same one-step impairment test to all reporting units, including those with zero or negative carrying amounts? Why or why not? If not, what would be the suggested goodwill impairment test for reporting units with zero or negative carrying amounts?

We agree with the proposed accounting to apply the same one-step impairment test to reporting units with zero or negative carrying amounts, as it represents a reasonable solution in the spirit of the Board's simplification project and we are not aware of any compelling reason to apply different policies to reporting units with zero or negative carrying amounts.

Question 4: Should entities with reporting units with zero or negative carrying amounts be required to disclose the existence of those reporting units and the amount of goodwill allocated to them? Why or why not? Are there additional disclosures that would provide useful information to users of financial statements?

We do not believe that entities with reporting units with zero or negative carrying amounts should be required to make these extra disclosures. Reporting units are a construct for goodwill accounting. We believe segment data is a sufficient level of detail for financial reporting disclosure. We are not aware of any compelling rationale for requiring incremental disclosure requirements to reporting units with zero or negative carrying amounts.

Question 5: Should the guidance on deferred income tax considerations when determining the fair value of a reporting unit outlined in paragraphs 350-20-35-25 through 35-27 and illustrated in Example 1 and Example 2 be retained, or should this Subtopic rely on the fair value guidance in Topic 820, Fair Value Measurement? If the guidance on the tax structure is retained, what, if any, amendments are necessary to address the potential difference in the impairment charge
calculated under the proposed amendments, depending on which tax structure is used in calculating the fair value of the reporting unit?

We believe the guidance on deferred income taxes outlined in paragraphs 350-20-35-25 through 35-27, and illustrated in Example 1 and Example 2, should be retained. The current structure is known and understood by all stakeholders, and the current guidance is helpful in determining the appropriate accounting. We are not aware of any amendments to the guidance on deferred taxes that would be necessary to enhance the usefulness of financial statements, as a result of the proposed amendments to the goodwill impairment test.

**Question 6:** Do you agree that the proposed guidance to remove Step 2 from the goodwill impairment test should be applied prospectively? Should there be specific transition guidance for companies that previously adopted the goodwill accounting alternative for private companies in current GAAP but decide to adopt this proposed guidance after it becomes effective?

If the proposed guidance were to be adopted we would agree it should be applied prospectively. Impairment testing necessarily involves fair value measurement, which under U.S. GAAP is performed using the knowledge available at a specific point in time. Retroactive application would be inconsistent with that principle.

**Question 7:** How much time would be necessary to adopt the amendments in this proposed Update? Should early adoption be permitted? Would the amount of time needed to apply the proposed amendments by entities other than public business entities be different from the amount of time needed by public business entities?

We do not believe it would take much time to adopt the amendments in this proposed update, if it is applied prospectively.

**Question 8:** Would the proposed amendments meet the Board’s objective of reducing the cost of the subsequent accounting for goodwill while maintaining the usefulness of the information provided to users of financial statements? Why or why not?

Yes, we believe the proposed amendment would accomplish this objective. Much of the cost of the current accounting for goodwill is related to the requirement to break out the balance sheet by reporting unit for goodwill testing, and the extensive Step 2 valuation exercise for each of the balance sheet line items. The Step 2 valuation is not practicable or cost effective, despite the theoretical accuracy.

**Question 9:** Are there additional changes that should be made to the subsequent accounting for goodwill to meet this objective, including changes that might be considered in Phase 2 of the Board’s project?

As mentioned in our introductory comments, we believe there are additional changes that should be made. Goodwill can be a wasting asset unless the assets are “evergreen”. Business strategies and products underlying acquired goodwill decline over time. Goodwill may impair naturally over time, if companies do not replace products or create new sources of income unrelated to the acquired goodwill. We believe that goodwill should be either 1) recorded as a direct write-off at the time of acquisition (e.g. to retained earnings) or 2) amortized to expense over time. At a minimum, Pfizer believes the alternative accounting for goodwill allowed for private companies should be expanded to make it available to public companies as well. This would simplify accounting for goodwill for public companies, as well as eliminating a difference
between private company and public company accounting requirements, thus simplifying US GAAP in general. In recent history, we have not received any requests for information on goodwill or goodwill impairments from investors.

**Question 10:** Are there any unintended consequences resulting from the improvements to the Overview and Background Sections of the Subtopics (discussed in Part II of the proposed amendments)?

One potential consequence resulting from the proposed amendment is that it may trigger a goodwill impairment too early, as a result of not performing Step 2.