October 11, 2019

Technical Director
File Reference No. 2019-720
FASB
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Subject: File No. 2019-720 Invitation to Comment, Identifiable Intangible Assets and Subsequent Accounting for Goodwill

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. In 2018, we reported revenues of $54 billion, pre-tax income from continuing operations of $12 billion and total assets of $159 billion.

Pfizer supports the Board’s outreach to solicit feedback on potential options to improve the applicable guidance over the subsequent accounting for goodwill and certain identifiable intangible assets. We agree with many of the concepts discussed by the Board in this invitation to comment.

We generally agree with the current definition of goodwill in the FASB Master Glossary, which defines goodwill as “an asset representing the future economic benefits arising from other assets acquired in a business combination.” In our experience, the nature of goodwill recognized in a business combination is consistent with the components described in the Basis for Conclusions in Statement 141(R), which included:

- fair value of the expected synergies and other benefits from combining the entities' net assets and businesses;
- fair value of the "going concern" element which is the ability of the established business to earn a higher rate of return than if the collection of net assets were acquired separately; and
- fair values of other net assets that had not been recognized by the acquired entity.
We would also like to acknowledge the Board’s recent efforts to improving the subsequent accounting model for goodwill. We believe both Update 2017-04, which eliminated Step 2 of the goodwill impairment test, and Update 2011-08, which established the optional qualitative test, provide preparers some measure of cost reduction. However, our experience is that the current accounting model for goodwill still imposes significant costs on the financial statement preparer, which we do not believe justify the benefits of the information provided to financial statement users. We believe a goodwill impairment charge is often a lagging indicator of the external and internal economic factors impacting the business. Financial statement users already receive detailed information about the preparer’s expectations for a business through other existing sources, including earnings releases, analyst calls and the Management, Discussion and Analysis section in our SEC filings. Users have access to information that allows them to typically observe trends that indicate a decline long before a goodwill impairment is recorded. Additionally, goodwill impairments are typically viewed as an unusual item and are removed from non-GAAP earnings. From a cost perspective, the process of determining the fair value of a reporting unit is subjective and often requires the additional costs of hiring an external valuation firm. Furthermore, the performance of the goodwill impairment test requires the creation of reporting unit balance sheets, which can be costly and timely to prepare for many companies. Pfizer does not keep reporting unit balance sheets as part of its books and records and, in fact, has many legal entities where the reporting units are commingled. Because the coding of the information requires additional cost and burden to the organization and management does not use that information to measure performance of our reporting units, we have elected to not have separate balance sheet information by reporting unit. Therefore, to prepare this information requires us to go through a carve-out type process. The optional ‘Step 0’ qualitative test is a helpful election, but still requires cost associated with the documentation and subsequent audit of the qualitative indicators.

**Goodwill – Amortize or Not**

To address some of these concerns, we would support efforts to create an accounting model of goodwill amortization paired with impairment testing. We believe there are many benefits to the amortization of goodwill. Amortization of goodwill would align goodwill with the treatment of other long-lived assets on the balance sheet and represent the allocation of cost to the period of benefit (similar to amortization of intangible assets and depreciation of fixed assets.) Amortization would likely reduce the risk of goodwill impairment charges, which would improve the cost/benefit relationship for preparers. We also believe that goodwill impairment in an amortization model could potentially be more decision-useful for financial statement users, since they may represent a strong indicator of unexpected business underperformance. We believe that many preparers would still exclude goodwill amortization from non-GAAP income metrics as a non-cash expense.
If the Board elected to require the amortization of goodwill:

- We would support the selection of an amortization period utilizing a level of reasonable management judgment. We believe management should consider factors specific to the acquired business, including timing of benefits on expected synergies and other benefits of the business combination with the acquired company and the useful lives of acquired assets, to select an amortization period. We recognize that this could lead to further complexity by having differing amortization periods related to different acquisitions and requiring preparers to track that information, and, in the event of a disposal a preparer might need to carve a piece of each layer out (even for those acquisitions that don’t relate to the disposal) to get to relative fair value.
- We would not support amortizing goodwill based solely on the useful life of the primary identifiable asset acquired or the weighted average useful lives of the identifiable useful assets(s) acquired.
- We would support a Board-established a cap and/or a floor on the allowable amortization periods.
- We would not support a single default amortization period that would be required to be utilized for all companies unless it was recognized that it was not representationally faithful of the economics of the industry, but rather, was simply an expedient device with no implicit or explicit meaning. Given the numerous differences amongst preparer companies and industries, we do not believe a default period could possibly represent the period over which the benefit of the acquisition is derived. As such, it is our view that some level of management judgement in the selection of an amortization period should be permitted. We also believe the selection of a reasonable amortization period could be informative to a user of the financial statements given that it indicates management’s expectation of the time frame over which benefits will be derived from a business combination. If the FASB were to adopt a new standard that included guidance on a single default amortization period and also allow for an option to justify an alternative period, we would recommend a default period guideline of 15 years consistent with the U.S tax rules. Using a consistent amortization period for both US GAAP and tax filings would reduce effort related to the quantification and tracking of deferred income tax assets and liabilities.

If the Board were to require the amortization of goodwill, we recommend a prospective transition method to simplify the implementation and provide consistency in reporting methodologies amongst registrants. Prospective transition would eliminate the burden of having to go back and recalculate amortization for past periods and including impacts of disposals as well. If a default period is used, the relevancy of retroactive transition is not supportable in our view.
Easing the Testing Process

Additionally, we would support amending the requirement to test goodwill annually. We believe mandating goodwill impairment testing only as a result of a triggering event would be less costly and burdensome and be more beneficial to users of financial statements. For the preparer, this would lessen the time, effort and expense of preparation of goodwill impairment testing annually. Under the current model, companies are required to test goodwill annually, often in cases where there is no risk of impairment. There is no way to utilize common sense because, under the audit environment, everything must be proven and documented even when all agree there is no real risk. We do not believe this change would impair an investor’s ability to understand the historical financial results of a Registrant or influence the investment decisions of investors. Importantly, triggering events model would provide financial statement users with useful information highlighting instances when a company was required to test for impairment.

We would also support an option to test goodwill at the total company level, or at the segment level. In the current model, the assessment of reporting units can be particularly time-consuming and may not be well understood by financial statement users. Companies today are dynamic and ever-changing and evolving and this means that they often reorganize their operations and divisions to drive evolving business strategies. This means that the exercise to compile the necessary information for reporting unit impairment testing including the creation of stand-alone balance sheets that do not exist in the financial systems as they are not utilized by management and reallocate goodwill to each reporting unit based on relative fair values generated through the hiring of third-party valuation firms is also quite time-consuming, burdensome and costly, while not providing particularly decision-useful information to the financial statement users. We believe the cost and effort in many cases exceeds the benefits to investors.

The invitation to comment also poses numerous questions on whether certain intangible items should be separately recognized from goodwill in a business combination. Update 2014-18 now allows private companies to subsume certain intangibles, including both customer-related intangible assets not capable of being sold or licensed independently from the other assets of the business (“CRLs”) and all noncompete agreements (“NCAs”), into goodwill. We would support principles-based criteria that would allow certain intangible items, like CRLs and NCAs, to be subsumed into goodwill in specific circumstances. Generally, we believe that intangible assets should be recognized only for items that are capable of generating cash flows independent of a business (i.e., capable of being sold or licensed separately). While we do not believe this would have a significant impact on our industry, we believe applying
a framework based around this definition would lead to the best cost-benefit result for both preparers and financial statement users. We would not be supportive of guidance that required all intangible assets to be subsumed into goodwill.

We would not support any of the enhanced disclosure requirements with regards goodwill and intangible assets that were discussed in the invitation to comment. We believe the existing disclosure requirements provide a financial statement user sufficient, clear and transparent information about the nature of these assets. Additionally, we would observe that much of the quantitative information about key performance assumptions for acquired businesses mentioned in the invitation to comment would seem to be duplicative of the SEC’s current requirements on disclosures in the Management’s Discussion and Analysis section. By adding such information to the financial statements, it would require preparers to document each assumption and the specific basis for each assumption. In some cases, key performance assumptions may be non-financial metrics that could be practically difficult or overly complex to audit. Additionally, we would have concerns with the potential risks of a US GAAP requirement to disclose forward-looking information. Furthermore, as the acquired business is integrated, our experience is that it increasingly difficult to separately track and monitor this type of information and that is why management does not require tracking like this. As a result of these factors, we believe such a requirement would place a significant undue burden on preparers with little benefit to users of financial statements.

We appreciate the Board’s solicitation of input and the opportunity to provide feedback on the Invitation to Comment, and would be pleased to discuss our perspectives on these issues with you at any time.

Very Truly Yours,

Loretta V. Cangialosi
Senior Vice President and Controller

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