May 29, 2015

Mr. Russell G. Golden, Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5166


Dear Chairman Golden:

Merck & Co., Inc. is a global health care company that delivers innovative health solutions through its prescription medicines, vaccines, biologic therapies, and animal health products, which it markets directly and through its joint ventures. We are pleased to provide you with our comments on the Proposed Accounting Standards Updates, “Balance Sheet Classification of Deferred Taxes” and “Intra-Entity Asset Transfers”.

We understand that these two proposed updates are outcomes of the FASB Simplification Initiative to identify and evaluate areas of U.S. GAAP where complexity and costs can be reduced while maintaining or improving the usefulness of the information required to be reported for users of financial statements.

Balance Sheet Classification of Deferred Taxes
We support the FASB’s proposal to classify all deferred tax assets and liabilities as non-current and believe that this change is consistent with the underlying objectives of the FASB’s Simplification Process. As noted in the exposure draft, the requirement to separate deferred income tax liabilities and assets into current and noncurrent amounts results in little or no benefit to users of financial statements because the classification does not generally align with the time period in which the recognized deferred tax amounts are expected to be recovered or settled. In addition, there are costs for an entity to separate deferred income tax liabilities and assets into current and noncurrent amounts. Because this change would not be difficult to implement and would be immediately beneficial to most companies by reducing workload (with no detrimental impact to the user of the financial statements), we would encourage the Staff to allow early adoption. In addition, we believe that Companies should have the alternative to adopt this standard on either a prospective or retroactive basis. While we recognize that there would be some additional costs to apply the amendment retroactively, we would not anticipate those costs to be significant, and therefore believe this option should be permitted to allow Companies to provide comparative financial statements.

Intra-Entity Asset Transfers
We do not support the FASB’s proposal to eliminate the exception in US GAAP that prohibits recognizing current and deferred income tax consequences for an intra-entity asset transfer.
until the asset or assets have been sold to an outside party. We do not believe that this proposal achieves the objectives of the Simplification Initiatives nor do we believe that it is consistent with the principles underlying the preparation of consolidated financial statements.

In relation to the Simplification Initiative, we believe that the proposed change neither simplifies GAAP nor improves the usefulness of the information reported to investors for the following reasons:

- Practices and procedures under the existing guidance are well-established and understood. We are not aware of diversity in practice or concerns that the current approach, under which the impact of intercompany transactions has no earnings effect, yields results that are not understandable or costly to prepare. To the contrary, current accounting guidance has the intuitive result of the tax provision being aligned with pretax income.

- The potential for a valuation allowance to be required on a deferred tax asset generated from an intra-entity transaction adds to the complexity. Under the current guidance, the purchaser would not set up a deferred tax asset and would instead recognize the tax effects when the asset is sold outside the group (or, as it is depreciated/amortized for tax purposes). With the proposed changes to recognition, there would be a need to evaluate the realizability of the deferred tax asset, which involves a level of judgment and analysis that does not exist today under current U.S. GAAP.

- The proposal will require transition to a different set of requirements that may be as complex to implement as the current requirements. Companies will need to modify their existing processes to accommodate the income tax accounting for intra-entity asset transfers without the benefit of improved financial reporting to justify the change.

In addition to the proposal not achieving the objectives of the Simplification Initiative, we also believe that the proposal is inconsistent with the principles underlying the preparation of consolidated financial statements. ASC 810-10-45 (the old ARB 51, Consolidated Financial Statements) requires that consolidated financial statements do not include gains or losses on transactions among members of the consolidated group. As discussed in the basis for conclusions for FAS 109 (codified as ASC 740), the Board recognized this fundamental principle in deciding to reject the FAS 96 approach to accounting for the tax effects of intercompany transfers and instead adopting the intra-entity transfer exception.

While we acknowledge that, as noted in the exposure draft, taxes owed by the seller in an intra-entity asset transfer are owed to a third party outside of the consolidated group, it is still within the power of the parent company to eliminate that liability simply by having the asset returned to the seller. Therefore we continue to believe that deferring recognition of that expense is appropriate in accordance with the consolidation principles enumerated in ASC 810-10-45.

Finally, establishing a deferred tax asset related to the value of the transferred asset on the books of the buyer upon completion of the intra-entity asset transfer reflects the assumption that purchase price represents the tax basis of the asset in the buyer’s tax jurisdiction. However, we do not believe that this will always be the case, for example in inventory transactions, given that it ignores the realistic contingency of returned goods and excess
inventory discards. In such case, if we were to write off that asset before selling it to a third party, we would likely not get a deduction in the buyer’s jurisdiction but rather would have to reflect a return of the product to the seller before writing it off in the seller’s jurisdiction. In essence, we do not have a tax basis equal to the amount sold into the buyer until the buyer sells that product to a third party, so establishing a deferred tax asset upon completion of the intra-entity asset transfer is premature.

Overall, we are supportive of the Simplification Initiative and the proposed change to the Deferred Tax balance sheet presentation. However, we believe that the proposal to eliminate the intra-entity transfer exception is inconsistent with both the Simplification Initiative as well as long standing consolidation principles and would recommend that the Board discontinue work in this area on that basis. If the Board elects to go forward with the elimination of this exception, then we strongly urge the Board to maintain the exception for intra-entity inventory transfers. We appreciate the Board’s consideration of these concerns and would be pleased to meet with the Board and Staff at your convenience to address any remaining questions.

Sincerely,

[Signature]

Rita Karachun
Senior Vice President, Finance and Global Controller