Corporate Finance
Pfizer Inc.
235 East 42nd Street
New York, NY 10017-5755
Tel 212 573 3222 Fax 212 338 1815
Email Loretta.v.cangialosi@pfizer.com



Letter of Comment No: 125 File Reference: 1125-001 Date Received: 1/7/03

Loretta Cangialosi
Vice President and Controller

January 7, 2003

Financial Accounting Standards Board 410 Merrit 76 P.O. Box 5116 Norwalk, Connecticut 06856-5116

File Reference 1125-001
FASB Proposal for a Principles-Based Approach to U.S. Standard Setting

Dear Ms. MacDonald:

Thank you for allowing Pfizer the opportunity to respond to the proposal for a principles-based approach to U.S. standard setting with its objective being the improvement of the quality and transparency of financial reporting and the development of future standards.

Pfizer is a research-based global pharmaceutical company that discovers, develops, manufactures, and markets innovative medicines for humans and animals. For 2001, total revenues and assets exceeded \$32 billion and \$39 billion, respectively

We acknowledge that many constituents, the U.S. Congress and the SEC have expressed the concern that as business transactions have become increasingly complex the accounting standards have also. Furthermore, it is becoming difficult to remain current with accounting standards development. In fact, some accounting standards are highly detailed, difficult to understand and use and costly to implement. As such, we do support the requirement of the Sarbanes-Oxley Act that the SEC investigate the feasibility of implementing a more principles-based approach to accounting in the U.S. and that the SEC work closely with the FASB on this proposal and assessment of it by constituents.

We are, however, concerned that a principles-based approach could reduce the comparability of financial information given the significant judgment that companies and auditors will need to use. Moreover, we view as very real and severe the risk of a preparer's judgments and interpretations being publicly "second guessed." We do not believe that preparers of financial

statements will accept these risks, nor do we believe that users and auditors of financial statements will accept these risks either. The adoption of a conceptual approach to accounting would likely be succeeded by shaken investor confidence in financial reporting as comparability decreases and as judgments, made in good faith, are deemed improper.

Given the current investor, business and regulatory environment, we cannot support the proposal for a principles-based approach, but rather do support the current approach used in the United States for standard setting - that is, standards based on a conceptual framework and supported by implementation guidance. We would offer a suggestion for improvement to move towards a principles-based approach. The FASB and the SEC must agree and make clear that accounting concepts (principles) have the same weight and authority as rules. We must question whether a particular outcome from application of the rules results in a faithful representation of the facts and when tension exists between the concept and the rules, we believe that tension must be resolved and disclosed.

Our comments on the proposal are expressed more fully in the attachment and we would be happy to discuss our views with you and the staff of the FASB.

Very truly yours,

Loretta V. Cangialosi

Loretta V. Cangialosi Vice President and Controller

Attachment

cc: Mr. D.L. Shedlarz, Executive Vice President and Chief Financial Officer Mr. A. G. Levin, Vice President - Finance

Pfizer Inc.

Comments on FASB Proposal for a Principles-Based Approach to U.S. Standard Setting Request for Comments

1. Do you support the Board's proposal for a principles-based approach to U.S. standard setting? Will that approach improve the quality and transparency of U.S. financial accounting and reporting?

Given the current investor, business and regulatory environment, I do not support the proposal for a principles-based approach. I support the current approach used in the United States for standard setting - that is, standards based on a conceptual framework and supported by implementation guidance. We observe that the conceptual-based standards issued by the Accounting Principles Board in the United States in the 1960's and early 70's were deemed insufficient over time and the process has evolved into today's framework of Concepts Statements, Standards and implementation guidance provided from a number of sources. I would offer a suggestion for improvement. The FASB and the SEC must make clear that accounting concepts (principles) have the same weight and authority as rules. For example, if accountants apply certain prescribed rules and achieve a certain result, they must also stand back and question whether the outcome results in a faithful representation of the facts. Only when concepts have the equivalent authority to rules, is an accountant able to resolve tension between the concept and the rules.

2. Should the Board develop an overall reporting framework as in IAS 1 and if so should that framework include a true and fair view override?

The consideration of the need for an overall reporting framework as in IAS 1 (Revised), *Presentation of Financial Statements* to provide guidance on for example materiality assessments, professional judgments, accounting policies, consistency, and presentation of comparative information would be warranted in order to provide a foundation for preparers and users of financial statements in an accounting standards environment less dependent on rules and implementation guidance and more dependent upon professional judgment. A principles-based approach to accounting standards would need to include among the overall considerations for reporting, a true and fair override approach to enable management to explain how it has decided that compliance with a particular requirement in a Standard would be misleading and the departure from the Standard that was necessary to achieve a fair presentation.

3. Under what circumstances should the interpretive and implementation guidance be provided under a principles-based approach to U.S. standard setting? Should the Board be the primary standard setter responsible for providing that guidance?

I believe that the FASB Board should be the primary standard setter responsible for determining when and the extent of interpretive and implementation guidance in a principles-based approach and in the current approach to U.S. standard setting that we believe should continue. Without changing to a principles-based approach for the concerns we have mentioned, the FASB with the cooperation of the SEC should decide when, why and the

Pfizer Inc.

Comments on FASB Proposal for a Principles-Based Approach to U.S. Standard Setting extent of interpretive and implementation guidance to provide based on the nature of the subject and deliberation of issues in its due process of standard setting. We do not generally object to detailed interpretive and implementation guidance in an accounting standard when necessary to achieve a consistency of application.

4. Will preparers, auditors, the SEC, investors, creditors, and other users of financial information be able to adjust to a principles-based approach to U.S. standard setting? If not, what needs to be done and by whom?

The FASB Board and other standard-setting bodies e.g., EITF and all the participants in the financial reporting process - the SEC, other regulators, enterprises and their Board of Directors and preparers, auditors and the users - would have to be equally committed to and accepting of a financial reporting system based on principles and thus a judgment versus a more detailed rules based approach with interpretive and implementation guidance. Such a unified consensus among all the parties involved in the financial reporting system would be, to say the least, a significant change and potential obstacle to making a principles-based approach to standard setting and financial reporting successful to all involved.

As a financial statement preparer, we face very real and severe risks and penalties should our interpretations of the proper accounting be publicly "second-guessed." Complex transactions can result in accounting interpretations, made in good faith, about which reasonable people can disagree. But, the market severely punishes companies where there is even a hint of public disagreement about an accounting position. As such, we do not believe that preparers of financial statements will accept these risks. Also, given the extreme danger that a lack of confidence can have on U.S. and international markets, we do not believe that users and auditors of financial statements will accept these risks either.

Finally, investors would have to be educated on just what a principles-based approach will produce – higher reliance on judgments and potential lack of comparability. Investor's expectations need to be set that principles-based accounting is not a panacea for what some consider a financial reporting crisis.

5. What are the benefits and costs including transition costs of adopting a principles-based approach to U.S. standard setting? How might those benefits and costs be quantified?

I believe that the costs in all considerations (necessary internal training, systems adaptations, external training e.g., shareholders, auditors, analysts to name but a few) would be significant and perhaps unquantifiable. I do not believe that the benefits of the proposed change can be realistically determined or convincingly estimated in order to make the proposed consideration a reality, the risks and costs would be too great.

6. What other factors should the Board consider in assessing the extent to which it should adopt a principles-based approach to U.S. standard setting?

Pfizer Inc.

Comments on FASB Proposal for a Principles-Based Approach to U.S. Standard Setting

As a preparer, I am opposed to the idea that the FASB move to a principle-based approach only. From one perspective, it is my strong belief that management continues to be in the best position to judge the representational faithfulness of the accounting for a particular transaction. Therefore, I do not favor a rules-driven process that limits flexibility of management to convey its financial information in the manner that it deems most appropriate to its investors. However, I also recognize that inconsistency in practice has and will develop under an approach that limits guidance to principles only. This inconsistency will likely be greater than the inconsistencies that develop in practice under our current system of concepts and rules. This inconsistency in practice can be devastating to the confidence that users have in the quality and comparability of financial statements. The marketplace will likely be unwilling to accept this level of uncertainty in financial statements. Moreover, I do not believe that preparers will be willing to accept this increased risk of being second-guessed.