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Technical Director  
File Reference No. 2012-260  
Financial Accounting Standards Board  
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Pfizer is a research-based, global pharmaceutical company with its principal place of business in New York. The Company's 2012 total revenues were \$59 billion and its assets were \$186 billion.

We appreciate the opportunity to respond, as a non-financial institution preparer, to the FASB Exposure Draft on Financial Instruments–Credit Losses (Subtopic 825-15).

Some comments:

- Expansion of the Expectation Gap – We are concerned that the revised approach to loss recognition could exacerbate the expectation gap; that is, that users of financial statements will not recognize the significant judgments involved in and the significant limitations associated with the revised credit loss model.

We understand from paragraph BC2 that the Board wanted “to improve the decision usefulness of the reporting of credit losses on financial assets for users of financial statements by removing the perceived constraints to timely recognition of credit losses and by requiring consideration of a broader range of reasonable and supportable information to inform those estimates than is currently permitted under U.S. GAAP.” We support this mission. However, as acknowledged by the Board in paragraph BC24, “estimating expected credit losses over longer periods of time (such as the contractual term of financial assets) requires a significant amount of judgment, especially when discounted cash flow techniques are used.”

There are real (not just perceived) constraints on management's ability to forecast losses over an extensive timeframe and estimation risk is real, not just perceived. We are very concerned that users of financial statements will have an **unrealistic expectation** of a company's ability to capture and recognize “lifetime expected losses” reliably. We have found through real experience applied over multiple years with projecting cash flows for fair value purposes, that despite best efforts, the reality is that actual results will be different because all possible events cannot be

known or factored into such models and, additionally, judgments are inherently variable and subject to change over time.

- Limitations of the Accounting Model – While this proposed ASU seeks to provide users with more “decision-useful information about the expected credit losses on financial assets,” we wish to stress our belief that investors and other users of financial statements are best served when we recognize the limitations of the accounting model. We believe that the accounting model works best when it measures, records and summarizes past transactions and events and becomes increasingly inadequate as it departs further and further from this baseline. The challenge for all of us is to recognize the point at which the usefulness of the measure is defeated by the complexity and/or appropriateness or variability of its calculation.

The proposed ASU seeks to replace the “current impairment model, which reflects incurred credit events, with a model that recognizes expected credit risks and by requiring consideration of a broader range of reasonable and supportable information to inform credit loss estimates.” For us, a number of questions arise: Should the financial statements recognize expected credit *risks*? Is it reasonable to expect that “lifetime expected losses” can be estimated with sufficient reliability, such that the estimated amounts should be recorded in the financial statements? Does one size really fit all? What is the potential for mischief?

Perhaps users of financial statements *are* better informed by the accounting for credit “events,” rather than the accounting for general “risks.” Perhaps all of this is asking too much of the accounting model and would be best handled with **sensitivity analyses**, perhaps only in MD&A, where safe harbor rules apply. We remain concerned about the use of models, which we know by the very nature of the estimates and judgments that surround them will deliver “a number,” but one that may be very different than reality.

- If Judgment is to be Required, Then Permit Judgment to be Applied – Paragraph 825-15-25-5 specifically prohibits a “best estimate/most likely outcome” approach to the measurement of expected credit losses and requires the consideration of at least two outcomes - - one scenario with the possibility of a credit loss and one scenario with the possibility of no credit loss. In our view, this “at least two outcomes” approach could result in two undesirable outcomes (ignoring practical expedients): (1) the recognition of a credit loss for a loss scenario that is deemed remote and (2) the recognition of a lower credit loss for a non-loss scenario that is deemed remote.

We request that the Board permit the use of a “**best estimate/most likely outcome**” approach.

Alternatively, we ask that the Board consider endorsing a “current expected credit loss model, **for losses deemed to be more than remote.**” The introduction of the concept of “more than remote” would not undermine the basic framework currently favored by the Board and the recorded credit losses would appear less arbitrary.

In addition, we believe that either of the two suggested approaches above would increase the relevance, reliability and decision-usefulness of the allowance for expected credit losses.

- Credit Losses on Initial Recognition – We find it difficult to explain a model that largely compels the recognition of credit losses upon *acquisition* of a debt security or loan. It seems that the resulting accounting **serves to impeach** the execution of our fiduciary responsibilities as trustees of our shareholders’ money.
- Provision of Practical Expedients – We appreciate the practical expedients provided for instruments classified as FV-OCI and for collateral-dependent financial assets. And, we do envision that these provisions will be considered important to preparers, users and auditors. However, with respect to the FV-OCI practical expedient:
  - The practical expedient requires that the individual financial asset meet two conditions: (i) that  $FV \geq AC$  and (ii) that expected credit losses are insignificant. We believe that factors unrelated to credit deterioration could result in some financial assets failing to meet these two requirements (for example, the interest rate environment). As such, since the proposed ASU concerns the recognition and measurement of *credit* losses, we recommend that the practical expedient be permitted as long as **EITHER condition** is met.
  - We request that robust implementation guidance be provided in these areas to ensure consistency in practice and a high-level of assurance to preparers and auditors that the expedients have been applied as intended by the Board. In particular, we request clear examples about what the Board intends by the term “insignificant” and how that concept is expected to be applied with respect to credit-quality indicators. We recommend that the practical expedient be permitted for **all investment grade debt securities**.
- Inclusion of Trade Receivables – We believe that trade receivables are fundamentally different from loans, notes receivable and debt securities and **should be excluded** from the scope of the proposed standard. Trade receivables result from different business processes within a company and are managed separately.
- Estimation and Disclosure – The quarterly estimation effort (data gathering, analysis, documentation, validation, and communication of estimates to

management and auditors) **could be significant**, especially if practical expedients cannot be applied. And, while we support transparency, our current systems are not designed to collect the information in the proposed disclosures and, therefore, we are concerned about the cost/benefit ratio. We expect that the proposed disclosure requirements, particularly related to roll forwards, would add **significant cost, time and effort** to the already burdened disclosure processes. Further, some of the more qualitative disclosures may be more appropriate in a public company's MD&A, where safe harbor provisions apply.

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We appreciate your consideration of these comments. We would be happy to discuss these matters further or to meet with you if it would be helpful.

Sincerely,



Loretta V. Cangialosi  
Senior Vice President and Controller

cc: Frank D'Amelio  
Executive Vice President, Business Operations and Chief Financial Officer