Pfizer Inc
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April 30, 2019

Technical Director
File Reference No. 2019-200
FASB
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Subject: File No. 2019-200 Invitation to Comment, *Measurement and Other Topics Related to Revenue Contracts with Customers under Topic 805*

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 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 efforts to clarify the application of the guidance on how to measure the fair value of a contract liability (for example, deferred revenue) from a revenue contract acquired after the adoption of Topic 606, *Revenue from Contracts with Customers*. We agree with many of the concepts discussed by the Board in this invitation to comment.

When measuring the fair value of a contract liability from a revenue contract acquired after the adoption of Topic 606, we believe that the timing of payments under the contract generally should not affect the subsequent amount of revenue recognized by the acquirer. As is described in ASC 606-10-05-03, "*The core principle of this Topic is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.*" If two contracts transfer the same promised goods or services in an exchange for the same amount of expected consideration, the timing of when that consideration is paid generally should not impact the revenue recognized, excluding the effect of any significant financing component of the contract.

As illustrated in the scenarios in the invitation to comment, we believe an acquirer would need to recognize an identifiable asset separate from other contract-related assets and liabilities at the acquisition date to ensure that the timing of payments would not affect the subsequent amount of revenue recognized by the acquirer. We believe that recording the value of this identifiable asset would not significantly change practice today, although the classification of the identifiable asset may be different. In this case, we would agree with the Board's commentary that an entity would need to understand how the identifiable asset and other customer-related intangible assets are interrelated. An entity would not consider cash flows related to the identifiable asset when valuing customer-related intangible assets. Of the scenarios presented in the invitation to comment, we believe that the identifiable asset would be best classified as a contract asset, and would follow the existing guidance for contract assets for subsequent measurement and derecognition.

In seeking to provide further guidance to align Topic 606 and Topic 805, *Business Combinations*, we would suggest that the Board consider utilizing the term "transaction price" as it is defined under Topic 606 and is inclusive of variable consideration that should be considered versus "contract price" which is not defined. For example, we believe an acquirer should continue to apply the sales and usage-based royalty constraint or variable consideration constraint guidance in Topic 606 as part of a business combination to an acquired revenue contract in which one or more performance obligations have been satisfied before the acquisition. In ASU 2016-10, the Board described the rationale for including the sales and usage-based royalty exception in BC.73:

> *The Boards included the guidance on sales-based or usage-based royalties in exchange for a license of intellectual property in Topic 606, as part of Update 2014-09, because both users and preparers of financial statements indicated that it would not be useful for an entity to recognize a minimum amount of revenue for those contracts. This is because that approach inevitably would have required the entity to report, throughout the life of the contract, significant adjustments to the amount of revenue recognized at inception of the contract as a result of changes in circumstances even though those changes in circumstances are not related to the entity's performance. The Boards observed that this would not result in relevant information, particularly in contracts in which the sales-based or usage-based royalty is paid over a long period of time. Entities also reported that such accounting would be operably difficult and subject to significant judgments because of the long-term nature of many licensing arrangements*

We believe this rationale continues to be true in the case of an acquired revenue contract that contains sales-based or usage-based royalties in which one or more performance obligations have been satisfied before the acquisition. We do not believe an entity should be required to estimate the fair value for a contract liability and inevitably have to report significant adjustments to that liability as a result of changes in circumstances unrelated to the entity's performance.

We further believe that it would be beneficial if the Board included a pharmaceutical industry example in any proposed accounting standard that illustrated an acquired revenue contract containing a combined performance obligation including a license of functional intellectual property and an up-front payment. For example, it is common in our industry for two companies to collaborate in the development of a drug product. In such an arrangement, an entity would typically receive an upfront payment in exchange for granting a license to the partner to co-develop the product. The entity may conclude that it should combine the performance obligation to deliver the license and to provide R&D services and recognize the up-front payment received as a contract liability which would be recognized as revenue or income over the development period of the product. If such a contract was acquired in a business combination, valuing the contract liability based on only the unperformed portion of the combined performance obligation under ASC 606 (i.e. the R&D services since the license has been delivered) would potentially result in recognition of revenue or income post acquisition that is significantly smaller than the revenue or income the acquiree would have recognized if the business combination did not occur.

We appreciate the opportunity to provide feedback on the invitation to comment and would be pleased to discuss our perspective 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