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Technical Director
File Reference No. 2015-320
FASB
401 Merritt 7
P.O. Box 5116
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Subject: Proposed Accounting Standards Update (ASU), *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients (File Reference No. 2015-320)*

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 2014, we reported revenues of \$50 billion and total assets of \$169 billion.

Pfizer supports the Board's efforts to clarify the guidance in Topic 606 and to make it more operational. However, we are concerned that some of the proposed amendments may produce unintended consequences that do not align with the conclusions previously reached by the FASB's and IASB's Transition Resource Group (TRG), which we agree with and believe they result in representationally faithful information. We have noted those concerns in our responses to Questions for Respondents.

Questions for Respondents

Question 1: Does the proposed addition of paragraphs 606-10-55-3A through 55-3C, as well as the addition of new examples, clarify the objective of the collectability threshold? If not, why?

We believe that the addition of paragraphs 606-10-55-3A through 55-3C and the addition of new examples are helpful in clarifying the objective of the collectability threshold, however we have concerns that example 1; Case E-Manufacturer (606-

10-55-98Q through 55-98S), as written, may lead to interpretations and accounting results which are unintended and do not align with conclusions previously reached by the TRG, as explained in detail below.

We infer that the Board's intent in adding Case E was primarily to illustrate the focus on "substantially all of" the consideration in the probability assessment in paragraph 606-10-25-1(e). We believe the example clearly illustrates that the criteria in paragraph 606-10-25-1(e) can be met when an entity determines that it is probable that it will collect less than 100% of the consideration to which it will be entitled for goods or services that will be transferred to the customer. However, we believe that the example's focus on an overall class of customer and the fact that the conclusions in the example are based on only the assessment of the overall customer class is not in line with the conclusions previously reached by the TRG (see below), with which we agree and believe they result in representationally faithful information, and that the guidance may be difficult to apply in practice.

The example implies that the conclusion of whether collection of all or substantially all of the transaction price is probable is determined based on the attributes of, and the entity's history with, the overall customer class rather than the entity's experience with that individual customer. The example concludes that "... it is not probable the entity will collect the full \$1,200,000 transaction price ..." based only on "The entity's history with this class of customer indicates that the entity expects to collect approximately 94 percent of the transaction price ..."

We believe that attributes of the individual customer, including that customer's recent payment history with respect to other contracts with the entity, should be the considerations in the assessment of the probability of the entity collecting substantially all of the consideration in the contract with the individual customer and that those individual customer attributes are more relevant to the assessment than the history with the overall customer class, which is based on an average collection rate from an overall portfolio of contracts. We note that in most of the other added or modified examples provided by the Board (Case A-Real Estate Developer; Case B-Service Provider 1; and Case C-Service Provider 2), the payment history of the individual customer with the entity, either before or during the contract in question, is emphasized as a significant factor in determining the probability of receipt of substantially all of the consideration either initially or upon reassessment of the contract.

We further note that the TRG in its January 26, 2015 deliberations agreed that if an entity has determined it is probable that a portfolio of customers will pay the amounts owed under a contract, but the entity has historical experience that it will

not collect all consideration resulting from the full portfolio of contracts, it still would be appropriate for the entity to record revenue for the contract in full and separately evaluate the corresponding contract asset or receivable for impairment. Based on the TRG conclusion with regard to this issue, an entity would **not recognize revenue from the customer based on the historical experience related to the full portfolio of contracts** - - rather an entity would recognize the full revenue from the contract as it is deemed probable that the amounts owed under the contract will be collected. We agree with that conclusion and believe that this interpretation results in representationally faithful information. However, under Case E the conclusion of how much revenue will be collected is based on historical experience with the full portfolio of contracts – i.e. the customer class. As such, we believe that Case E does not align with the TRG conclusion as it implies that the historical experience with the overall customer class should drive the determination of how much of the transaction price will be collected from an individual customer.

We further believe that this distinction of whether customer class is a main factor in the assessment of the probability of collection of all, or substantially all, of the consideration under the contract such that customer class would drive this conclusion, or alternatively whether specific attributes of the customer should be the main consideration in this assessment has many practical implications, since many entities' bad debt reserve policies have rules regarding reserves by customer class, which may in turn "implicate" all the contracts under a certain customer class. Specifically, the determination of reserves in many instances uses average statistics to reserve a portion of all balances under a customer class, regardless of aging of the balance. We believe that this practice triggered the TRG discussion and conclusion that if the collection of all, or substantially all, of the consideration is deemed probable for a customer within a portfolio of contracts, revenue should be recognized in full even if historical experience indicates that not all amounts (i.e. 100% of the amounts) will be collected from the overall customers under the portfolio.

We also believe that the proposed amendments of the standard where a contract would meet the criteria for probability of collection even if only substantially all of the amounts owed under the contract are probable to be received, does not resolve our aforementioned concern as there are instances where historical experience of a certain customer class would be, for example, at a level of 80-85%. In such case an entity could conclude that substantially all of the consideration is probable of collection at inception of the contract, based on the attributes of the specific customer, however, since statistics of the customer class indicate an average

collection rate of only 80-85%, based on Case E, that would imply that the criteria is not met.

Consequently, we propose that Case E be amended to indicate that the conclusion of how much of the transaction price will be collected should depend on the attributes of the specific contract, including the history with that customer, rather than the attributes of the overall customer class.

Question 2: Paragraph 606-10-25-7(c) was proposed to provide clarity about when revenue should be recognized for a contract that does not meet the criteria in paragraph 606-10-25-1. Does this proposed amendment improve the clarity of applying the guidance? If not, why?

We believe that the addition of paragraph 606-10-25-7(c) is helpful in determining when revenue should be recognized for a contract that does not meet the criteria in paragraph 606-10-25-1. However, we believe it is unclear whether this guidance will apply in a situation where an entity has a series of short duration contracts with a customer and consideration has been partially received for a portion of the contracts.

Paragraph 606-10-25-7(c) states that "... the entity has stopped transferring goods and services to the customer and has no obligation to transfer additional goods or services..." In a case where, for example, an entity sold product to a customer through a series of purchase orders which were determined individually to be separate legal contracts, we believe that paragraph 606-10-25-7(c) should be applied to each individual contract and not to the series of short duration contracts and the longer duration relationship between the entity and the customer. That is, if under the current contract an entity has completed transferring the goods or services or has stopped transferring goods and services to the customer and has no obligation to transfer additional goods or services, then the consideration received for the current contract that is non refundable, should be recognized. We believe that this application aligns with the fact that the collectability assessment is not necessarily based on the customer's ability and intention to pay the entire amount of consideration for the entire duration of the contract if the entity expects to stop transferring additional promised goods or services **in the contract** in the event that the customer fails to pay the consideration when it is due. As such, we would suggest that the paragraph be modified as follows for clarity:

- c. The entity has transferred control of the goods or services to which the consideration that has been received relates, the entity has stopped

transferring goods and services to the customer or has completed transferring goods and services to the customer and has no obligation to transfer additional goods or services to the customer under the current contract, and the consideration received from the customer under the current contract is nonrefundable.

Question 3: The collectability criterion in paragraph 606-10-25-1(e) refers to collectability being probable, which is defined in Topic 606 as “likely to occur.” If the Board were, instead, to refer to collectability being “more likely than not,” which would result in a converged collectability criterion with IFRS, would the amendment improve the collectability guidance in Topic 606? If not, why?

We support convergence with IFRS, but not at the expense of decision usefulness and representational faithfulness. We do not believe that in this case the term “probable” should be changed to “more likely than not” as we believe “more likely than not” is too low of a threshold for recognizing revenue and that if the term is changed revenues from contracts would ultimately be recognized in full in instances where there is almost a 50% chance of not collecting the full amount recognized. We also do not believe that this threshold aligns with the decision of introducing the constraint on variable consideration at a level of “probable” (for not having a significant revenue reversal).

Question 4: Paragraph 606-10-32-2A provides a policy election that would permit an entity to elect to exclude all sales (and other similar) taxes collected from customers from the transaction price. Does this proposed amendment reduce the cost and complexity of applying Topic 606? If not, why?

We support excluding all sales (and other similar) taxes collected from customers from the transaction price since we do not believe that these amounts are part of the contract with the customer. Additionally, we believe that the two alternatives (either performing an analysis jurisdiction by jurisdiction and reporting revenues and expenses gross if it is determined that the entity is primarily obligated for the payment of the tax, or, alternatively electing to exclude these taxes from the transaction price in all instances) may reduce comparability between companies by substantial amounts (due to the high level of sales tax rates and value added taxes around the world), which we do not believe to be a beneficial outcome.

Further we observe that (a) the laws in some jurisdictions are unclear about which party to the transaction is primarily obligated for payment of the taxes; and (b) in the FASB outreach most users reported that presentation of all sales taxes and other similar taxes on a net basis (that is, excluded from both revenues and costs)

would provide the most useful financial information. We also believe that applying the implementation guidance of paragraphs 606-10-55-36 to 606-10-55-40 in order to make the determination which party is primarily obligated for payment of the taxes would be very difficult to perform in practice and therefore diversity is likely to be created even when two entities are both not using the policy election.

Additionally, we believe that it is more representationally faithful not to report sales (and other similar) taxes on a gross basis as these amounts are not a part of the transaction price and are dictated by a government entity (to be remitted to it), rather than the parties to the contract and therefore such amounts will increase reported revenues in what we consider an “artificial manner”. As such, in order to increase comparability, increase the usability of all financial statements and reduce complexity, we recommend to require excluding sales taxes and other similar taxes from the transaction price in all instances.

Question 5: Revisions to paragraph 606-10-32-21 and the related example specify that noncash consideration should be measured at contract inception. Does this proposed amendment improve the clarity of applying the guidance? If not, why?

We believe the proposed amendment to measure the fair value of noncash consideration at the inception of the contract clarifies the guidance in that it provides a point in time for the measurement of noncash consideration.

Question 6: Revisions to paragraph 606-10-32-23 clarify that the guidance on variable consideration applies only to variability in noncash consideration resulting from reasons other than the form of the consideration. Would the proposed amendments improve the clarity of applying the guidance? If not, why?

We believe the revisions to paragraph 606-10-32-23 do clarify when to apply the guidance on variable consideration when non cash consideration is granted. However, we are concerned that differentiating between when the variability results from reasons related to the form of consideration and when it results from reasons other than the form of consideration may prove to be difficult and may result in diversity in practice. We propose the Board add examples to demonstrate how to differentiate between these two types of variability.

Question 7: Paragraph 606-10-65-1(f)(4) provides a practical expedient for contract modifications at transition. Would the proposed amendment reduce the cost and complexity of applying Topic 606? If not, why?

We support the practical expedient allowing at transition for the treatment of all modifications to the contract as though they had happened concurrently. We do not believe that any precision in revenue recognition amounts or patterns gained by requiring separate evaluations for each contract modification would justify the added complexity.

Question 8: Revisions to paragraph 606-10-65-1(c)(2) clarify that a completed contract is a contract for which all (or substantially all) of the revenue was recognized under revenue guidance in effect before the date of initial application. Does this proposed amendment clarify the transition guidance? If not, why and what alternative would you suggest?

We support the Board's effort to provide relief in transition by specifying that a completed contract is a contract for which all (or substantially all) of the revenue was recognized under revenue recognition guidance in effect prior to adoption of Topic 606.

We appreciate the opportunity to provide our comments on the amendments in the proposed Update. We would be happy to discuss our comments with you further or to meet with you if it would be helpful.



Loretta V. Cangialosi
Senior Vice President and Controller

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