Pfizer Breakthroughs that change patients' lives

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Technical Director
File Reference No. 2021-004
FASB
401 Merritt 7
PO Box 5116
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Subject: File Reference No. 2021-004 Invitation to Comment, *Agenda Consultation*

Dear Technical Director:

Pfizer Inc. is a research-based, global biopharmaceutical company headquartered in New York. We discover, develop, manufacture, market, sell and distribute innovative healthcare medicines and vaccines worldwide. In 2020, we reported revenues of $41.9 billion, pre-tax income from continuing operations of $7.5 billion and total assets of $154.2 billion.

Pfizer appreciates the opportunity to comment on the FASB's Invitation to Comment, *Agenda Consultation*. We support the Board's efforts to solicit and consider feedback from stakeholders to shape the future standard-setting agenda of the FASB and to consider the appropriate prioritization of those topics. We understand that the Board's resources are finite, and priorities must be set; therefore, we suggest the Board prioritize projects where the cost-benefit analysis produces enhancements that provide decision-useful financial information and disclosures to shareholders and other users of financial statements, and reduce unnecessary complexity and related cost. We also support prioritization for emerging areas in financial reporting.

<u>Prioritize</u>

Consolidations

We appreciate the targeted improvements that the Board has made to the consolidation guidance over the past few years, but applying the consolidation guidance in Topic 810, Consolidation, for variable interest entities (VIEs) remains overly complex and time consuming.

We believe there is an opportunity to simplify and expand the scope exceptions found within the VIE model without diminishing value to users. The variable interests that trigger the assessment of the VIE criteria are numerous and can come in various forms. Companies are required to perform a VIE assessment for numerous types of legal business structures, but these entities rarely end up being consolidated. We believe the following are examples of the types of scope improvements that would reduce the amount of time and cost spent determining whether an entity is in scope of the VIE model:

- Add back an updated version of the development-stage entity scope exception to the VIE guidance that was eliminated by ASU 2014-10.
- Scope out arrangements where the reporting party has little to no power or influence. The VIE analysis for these arrangements takes a significant amount of time even though the reporting entity clearly does not hold a significant variable interest.
- Scope out arrangements that are immaterial to the reporting party. We believe the Board should set a materiality threshold for an entity to scope out certain VIE arrangements. For example, if the fair value of the VIE's equity is less than 3% of the fair value of the reporting party's equity, it should be scoped out. A similar threshold can be applied to the VIE's and the reporting party's revenue and net income.

With the addition of the above scope exceptions, the FASB could also further emphasize that companies are required to disclose material contingent liabilities and/or financial commitments of any kind. These steps would eliminate unnecessary complexity, time and cost to assess whether business arrangements are in scope VIE accounting, while continuing to inform and protect investors in regards to off-balance sheet business structures that include financial commitments or risk of loss.

In addition, we believe the Board should eliminate consolidation rules for VIEs that are not businesses in ASC 810-10-30-3 and ASC 810-10-30-4. These rules add needless complexity and can result in different accounting than if the entity was not a VIE. Specifically, the VIE accounting results in a hybrid presentation between the business combination and asset acquisition rules (i.e., record contingent consideration and assets and liabilities at fair value similar to business combination rules, but do not record goodwill). Instead, we believe that reporting entities should follow the existing asset acquisition accounting guidance for VIEs that are not businesses.

Environmental, Social, and Governance (ESG)
We recognize the FASB addressed the intersection of ESG matters with financial accounting standards in the FASB Staff Educational Paper, *Intersection of Environmental, Social, and Governance Matters with Financial Accounting Standards*. However, the volume and types of ESG related business activities are increasing and ESG reporting requirements are quickly evolving and expanding internationally. We recommend that the Board add an ESG related accounting and disclosure topic as a prioritized agenda item. There is a lack of clarity on how a preparer should apply current accounting standards to certain ESG related transactions. Due to the lack of clarity, analyzing these transactions requires a significant amount of time and judgement. Also, there is a risk that companies will measure and present certain environmental transactions differently in the financial statements resulting in diversity in practice and inconsistency in reporting. These

differences will become more pervasive over time as the number of ESG related transactions are likely to increase. The Board should address accounting and disclosure requirements by including clarifying examples to accounting guidance for the most common ESG related transactions, such as renewable energy credits, carbon offsets, emissions allowances, and financing and compensation arrangements linked to ESG metrics and goals, such as green bonds.

Other – Existing Agenda
While many of the topics on the current agenda have merit, we believe the Board should prioritize completion of the below two projects.

1. Recognition and Measurement of Revenue Contracts with Customers under Topic 805. Prepares and investors would benefit from consistent recognition and measurement guidance for revenue contracts with customers acquired in a business combination and revenue contracts with customers not acquired in a business combination. We believe the Board should prioritize this project and pursue a simplified process that would eliminate the complex valuation process required to fair value an acquired contract liability, along with the post-acquisition accounting model for recognizing revenue.
2. Identifiable Intangible Assets and Subsequent Accounting for Goodwill. Amortization of goodwill would align goodwill with the treatment of other long-lived assets on the balance sheet and represent the allocation of cost to the period of benefit (similar to amortization of intangible assets and depreciation of fixed assets.) Amortization would likely reduce the risk of goodwill impairment charges, which would improve the cost/benefit relationship for ongoing goodwill impairment assessment. We also believe that goodwill impairment in an amortization model could potentially be more decision-useful for financial statement users, since they may represent a strong indicator of unexpected business underperformance. We believe the Board should prioritize this project which would benefit both preparers and financial statement users.

Deprioritize or Remove

Financial key performance indicators (KPIs) or non-GAAP metrics
We do not believe the Board should pursue a project around KPIs or non-GAAP metrics at this time. We recognize the use of KPIs may not be comparable across all companies which can create complexity for investors, but many are industry specific and not conducive to standardization. Also, there is existing guidance from the Securities and Exchange Commission around non-GAAP metrics which is well understood. Preparers provide decision-useful information that is relevant to their performance, and the Board's efforts to standardize the approach or to define new KPIs or metrics would not justify the expected costs.

Disaggregation of financial information
We do not believe the Board should pursue a project around the disaggregation of financial information without first meeting with users and preparers together. We believe this type of meeting will facilitate a conversation as to better mutually understand the value and

insights that people hope to obtain regarding information that may not be easily compiled and may not be used by management in their assessment of resource allocations, budgets and performance. The pursuit of this project could be in contradiction to existing guidance, specifically ASC 280-10-05-3 which states, "…*The method for determining what information to report is referred to as the management approach. The management approach is based on the way that management organizes the segments within the public entity for making operating decisions and assessing performance*." We believe that requiring any disclosures below this level would be inconsistent with the overarching principals behind segment reporting today. Also, the disaggregation of financial information as suggested in the ITC is not readily available for many companies and would have to be aggregated manually which would be costly and require a significant amount of time. Lastly, we are unclear as to how disaggregation at the level suggested would result in decision-useful information to investors.

Other – Existing Agenda
We believe the Board needs to be selective in deciding what to pursue on the current agenda and suggest the removal of the below two projects.

1. <u>Disclosure Framework: Disclosure Review—Income Taxes</u>. We believe that additional disclosure requirements will lead to higher levels of investor confusion as a result of the complex nature of accounting for taxes and its intersection with tax initiatives and tax legislation that can dramatically alter future cash flows, thereby leading an investor to inappropriate conclusions regarding those cash flows. Taxes within global companies are extremely complex due to the number of jurisdictions and local laws, regulations and interpretations, varying tax rates and the tax systems that are involved. Further complicating the dynamic when attempting to provide disclosures about the past to predict future outcomes is that the taxes recorded today are subject to change through both external actions which are outside of our control and our internal actions. As a multinational company, we do not believe that additional disclosures will permit even a sophisticated user of the financial statements, to make any reasonably reliable prediction about the sustainability of tax rates or the amount, timing or uncertainty of future cash flows. We appreciate that a user may find such predictions to be useful, but when we are asked in investor calls or meetings about such matters, we generally only predict a tax rate for the current year given all the dynamics of the situation.

2. <u>Conceptual Framework: Elements.</u> We believe the existing conceptual definitions in *Concept Statement No. 6, Elements of Financial Statements* are well understood by both prepares and financial statement users, and we would have concerns that the proposed changes in the Invitation to Comment, *Concepts Statement No. 8, Conceptual Framework for Financial Reporting – Chapter 4: Elements of Financial Statements* could impact existing accounting practice. While we understand that the Board is trying to separate the matters of recognition, measurement, and display from the definitions of the elements of financial statements in the Board's conceptual framework project, we believe many of these matters are so interrelated that the proposed changes reduce the usefulness of the

elements definitions. We believe the Board should remove this item from the agenda as it is not beneficial to preparers or financial statement users.

We appreciate the Board's solicitation of input and the opportunity to provide feedback on the Invitation to Comment and would be pleased to discuss our perspectives on these issues or any other agenda topics with you at any time.

Very Truly Yours,

Jennifer B. Damico
Senior Vice President and Controller

Cc: Frank A. D'Amelio
Chief Financial Officer and Executive Vice President, Global Supply