Pfizer Breakthroughs that change patients' lives

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November 18, 2021

Technical Director
File Reference No. 2021-005
FASB
401 Merritt 7
PO Box 5116
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Subject: File Reference No. 2021-005 Proposed Accounting Standards Update – Fair Value Measurement (Topic 820), Fair Value Measurement of Equity Securities Subject to Contractual Sales Restrictions

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 supports the Board's efforts to clarify the guidance in Topic 820, Fair Value Measurement. We agree with the proposed amendments on measuring the fair value of an equity security subject to a contractual sale restriction. We believe the proposed amendments will clarify and improve current GAAP, reduce diversity in practice, reduce cost and complexity, and improve comparability of financial information.

<u>Measurement</u>
We believe the characteristics of the restriction is important in determining whether the restriction affects the fair value of those securities.

We agree with the Board's decision that a contractual restriction prohibiting the sale of an equity security should not be considered part of the unit of account of the equity security and, therefore, should not be considered in measuring fair value. We believe the contractual sale restriction is viewed as a characteristic of the entity holding the security rather than a characteristic of the asset. We also believe that contractual sale restrictions should be viewed from a market participant perspective and such a restriction on the sale of an equity security would not affect its fair value.

We understand the alternative views of some of the Board, but we believe requiring contractual sale restrictions to be considered in determining fair value may be costly and complex as entities may be required to engage valuation specialists to help incorporate the effects of entity-specific contractual sale restrictions in determining fair value.

In the pharmaceutical industry, we sometimes enter into in-license or license and collaboration agreements for the development and potential commercializations of medicines and vaccines. Under these agreements, we sometimes make up-front payments and/or milestone payments to the counterparty in connection with the terms of the agreement, and we also may purchase an equity ownership in the publicly traded stock of the counterparty. A contractual restriction may exist where we agree that we will not sell stock for a period of time. In this scenario, the contractual restriction is a characteristic of the entity, and not the security, therefore, we would not take the contractual restriction into account when determining fair value. Conversely, under a license and/or collaboration agreement, an equity security restriction may exist where we hold an equity instrument for which sale is restricted for a specified period due to lack of registration of the securities with the SEC and lack of an exemption from the registration requirements. In this scenario, the restriction is a characteristic of the instrument and, therefore, would be transferred to market participants. As such, the fair value of the instrument would be adjusted to reflect the effect of the restriction.

For example, assume a company were to pay cash at the market value for equity in a publicly traded company as part of a license and collaboration agreement for a medicine that is still under development and has not been approved for commercial sale. If we had to apply a discount to the market value of the publicly traded security for a contractual sale restriction, when recording the initial value of the investment, it would result in research and development expense being initially recorded at the inception of the arrangement for the difference between the discounted “fair value” relative to the published market value. This discount would presumably get accreted into income over the term of restriction such that the reported value would equal the market value at the end of the restriction period. Similarily, deals with non-public companies and contractual lock-up periods could create large amounts of up front research and development expense with subsequent income accretion if the FASB were to implement certain of the Alternative Views. The quantification of the value ascribed to a contractual lock-up would require the use of a third party valuation company increasing cost.

Lastly, we believe considering contractual sale restrictions in determining fair value would create unnecessary complexity and would not result in decision useful information to investors. We would also note that we do not believe the FASB requires an accounting effect of contractual restrictions in other areas of accounting. Although cash and cash equivalents are not technically measured at fair value, we might analogize that contractual sale restrictions on equity securities are similar to contractual restrictions on cash and cash equivalents. Current accounting rules would not require companies to discount the value of restricted cash and restricted cash equivalents. However, similarly, we believe disclosure about the nature of any material restrictions would be appropriate.

Disclosures
We believe current requirements for disclosing key terms of material transactions including equity investments are already adequate to help ensure users understand the effects of a contractual restriction on the sale of an equity security and additional disclosure requirements, as part of the proposed Update, is not necessary.

Adoption
We agree that the amendments in this proposed Update should be applied prospectively with any adjustments from the adoption recognized in current period earnings on the date of adoption. We believe applying the amendments in this proposed Update would not require significant effort and we do not anticipate altering how we currently account for equity securities subject to contractual sale restrictions.

Clarity
We understand why some stakeholders believe that Topic 820 contains conflicting guidance. The guidance indicates that the unit of account is an individual equity security and, therefore, some stakeholders concluded that it is not appropriate to adjust the fair value of an equity security to reflect the effect of a separate contractual restriction. However, an illustrative example indicates that a contractual sales restriction would be considered a characteristic of that equity security and, therefore, included within the unit of account. Stakeholders that conclude that a contractual sale restriction is considered in the unit of account adjust the fair value of the equity security to reflect the effect of the restriction.

We believe the amendments in the proposed Update provide clarity and will reduce diversity in practice. The interpretive guidance that was added in this proposed Update clarifies that a contractual restriction on the sale is not considered part of the unit of account for the equity security and therefore is not considered in measuring fair value. Also, the illustrative examples added regarding the impact of the restriction on the sale of an equity security provides the necessary clarity to resolve existing diversity in practice which may improve comparability of financial information across reporting entities.

We appreciate the Board's solicitation of input and the opportunity to provide feedback on the proposed Update and would be pleased to discuss our perspectives on these issues with you at any time.

Sincerely,

Jennifer B. Damico

Jennifer B. Damico
Senior Vice President and Controller

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