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**Loretta Cangialosi**
Vice President and Controller

October 24, 2003

Ms. Anne McGeachin
Project Manager
International Accounting Standards Board
30 Cannon Street, London EC4M 6XH
United Kingdom

**Subject: Exposure Draft 4 of Proposed IFRS *Disposal of Non-current Assets and Presentation of Discontinued Operations***

Dear Ms. McGeachin:

Pfizer welcomes the opportunity to comment on the Exposure Draft of Proposed IFRS *Disposal of Non-current Assets and Presentation of Discontinued Operations* (ED 4). Pfizer discovers, develops, manufactures and markets leading prescription medicines for humans and animals and many of the world's best-known consumer brands. The Company's 2002 total revenues were $32.4 billion and its assets were over $46.3 billion. Pfizer supports the efforts of the IASB to improve standards of financial accounting and reporting and achieve international convergence. Our comments are summarized below and are more fully discussed in the attached document.

We are in general agreement with the specific proposals on which the Board requested comments and are pleased to see the continued effort towards the international convergence of accounting standards. However, we have summarized below specific elements of the proposed amendments which we feel may delay that progression.

## Revalued assets

As communicated in our response to the Exposure Draft of Proposed Amendments to IAS 36 *Impairment of Assets* (IAS 36), we do not agree with the reversal of impairment losses. While we agree that costs to sell and any subsequent changes in costs to sell be recognized in the income statement, we do not agree with the requirement that impairment losses arising from the write-down of assets (or disposal groups) to fair value less costs to sell (and subsequent gains) should be treated as revaluation decreases (and revaluation increases). We believe that the provisions of Statement of Financial Accounting Standards No. 142, *Accounting for Goodwill and Other*

*Intangible Assets* (SFAS 142), and No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets* (SFAS 144), prohibiting the reversal of impairment losses for all long-lived assets, work well to avoid earnings management issues via the recognition and reversal of impairment losses. We believe that the recognition of impairment establishes a new cost basis for the impaired asset rather than establishing a fair value basis.

We believe that for assets held for sale, a loss should be recognized for initial and subsequent write-downs to fair value less cost to sell and that a gain should be recognized for any subsequent increase in fair value less cost to sell, but not in excess of the cumulative loss previously recognized for a write-down to fair value less cost to sell as prescribed by SFAS 144.

**Classification of non-current assets held for sale**

The ED (paragraph 5) classifies exchanges of non-current assets for other non-current assets as sales transactions. Under SFAS 144, long-lived assets that are to be exchanged for similar productive assets cannot be classified as held for sale because the exchange of such assets is accounted for based on the carrying amount of the assets, not at fair value. Using the carrying amount is more consistent with accounting for a long-lived asset to be held and used than for a long-lived asset to be sold. We believe that an exchange of non-current assets for similar non-current assets that are normally not held for sale in the ordinary course of business should not result in recognition of a gain or loss. We also believe that requiring this type of exchange to be accounted for at fair value creates a risk of abuse. The fair value of assets in use that are not normally sold can be difficult to estimate and therefore may be based on more subjective than objective factors.

While we understand the Board's desire for consistency with draft IAS 16 *Property, Plant and Equipment*, which prescribes that an exchange of assets be measured at fair value and be accounted for as a disposal and acquisition of assets, we support the SFAS 144 approach and would prefer the achievement of convergence with SFAS 144 in this proposed IFRS until such time as conversion is achieved on the measurement of exchanges of long-lived assets for similar productive long-lived assets.

Our more specific comments to the proposal are set forth in the attachment.

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.

Very truly yours,

*Loretta V. Cangialosi*

Loretta V. Cangialosi
Vice President and Controller

cc: David L. Shedlarz, Executive Vice President and Chief Financial Officer, Pfizer Inc

**<u>Attachment</u>**

**Detailed Response to the Proposed IFRS (ED 4)**
***Disposal of Non-current Assets and Presentation of Discontinued Operations***

### Question 1 – Classification of non-current assets held for sale

The Exposure Draft proposes that non-current assets should be classified as assets held for sale if specified criteria are met. (See paragraphs 4 and 5 and Appendix B.) Assets so classified may be required to be measured differently (see question 2) and presented separately (see question 7) from other non-current assets.

Does the separate classification of non-current assets held for sale enable additional information to be provided to users? Do you agree with the classification being made? If not, why not?

*<u>Pfizer Response to Question 1</u>*:

We agree that non-current assets be classified as assets held for sale if specified criteria are met and be required to be measured differently and presented separately from other non-current assets. We are in agreement that the separate classification of non-current assets held for sale enables additional information to be provided to users. We support the proposed convergence with SFAS 144. However, we take exception with areas of continuing non-convergence as discussed in the following paragraphs:

- We do not agree with the revaluation approach prescribed in IASB Standards in general and, specific to this ED, with paragraphs B5 to B8, as discussed in our response to Question 5.

- We also take exception with paragraph 5 relative to the proposed classification of exchanges of non-current assets for other non-current assets as sales transactions. As discussed in paragraphs BC15 to BC17, under SFAS 144, long-lived assets that are to be exchanged for similar productive assets cannot be classified as held for sale because the exchange of such assets is accounted for based on the carrying amount of the assets, not at fair value. Using the carrying amount is more consistent with accounting for a long-lived asset to be held and used than for a long-lived asset to be sold.

We believe that an exchange of non-current assets for similar non-current assets that are normally not held for sale in the ordinary course of business should not result in recognition of a gain or loss. We also believe that requiring this type of exchange to be accounted for at fair value creates a risk of abuse. The fair value of assets in use that are not normally sold can be difficult to estimate and therefore may be based on more subjective than objective factors. This in turn opens the fair value estimation process to possible manipulation. We believe that accounting for this type of exchange at carrying value is a more conservative approach that more clearly reflects the nature of the transaction.

In addition, we understand the Board's desire for consistency with draft IAS 16 *Property, Plant and Equipment* which prescribes that an exchange of assets be measured at fair value and be accounted for as a disposal and acquisition of assets and the possibility that the FASB may decide to converge with IAS 16.

We support the SFAS 144 approach and would prefer the achievement of convergence with SFAS 144 in this proposed IFRS until such time as conversion is achieved in the measurement of exchanges of long-lived assets for similar productive long-lived assets.

- We also note that the ED (paragraphs 6 & 7) prescribes that long-lived assets to be abandoned should not be classified as held for sale but it does not mention similar treatment for assets to be distributed to owners in a spin-off as SFAS 144 does. In addition, there is no mention of the SFAS 144 requirement that for an asset to be abandoned before the end of its previously estimated useful life, depreciation estimates be revised to reflect the use of the asset over its shortened useful life. We recommend inclusion of these items in the proposed IFRS to achieve convergence with SFAS 144.

- Relative to the measurement of assets held for sale (your reference to Question 2); see our comments in response to Questions 2 and 5.

**Question 2 – Measurement of non-current assets classified as held for sale**

The Exposure Draft proposes that non-current assets classified as held for sale should be measured at the lower of carrying amount and fair value less costs to sell. It also proposes

that non-current assets classified as held for sale should not be depreciated. (See paragraphs 8-16.)
Is this measurement basis appropriate for non-current assets classified as held for sale? If not, why not?

*Pfizer Response to Question 2*:
We are in general agreement with the measurement basis for non-current assets classified as held for sale but take exception to the revaluation issues addressed in paragraph 13. This paragraph states: "*Paragraphs B5-B8 of Appendix B set out the requirements for the recognition of impairment losses and subsequent gains for assets that, before classification as held for sale, were measured at revalued amounts under another IFRS and for disposal groups that include such revalued assets*". See our comments on revaluation in response to Question 5.

**Question 3 – Disposal groups**

The Exposure Draft proposes that assets and liabilities that are to be disposed of together in a single transaction should be treated as a disposal group. The measurement basis proposed for non-current assets classified as held for sale would be applied to the group as a whole and any resulting impairment loss would reduce the carrying amount of the non-current assets in the disposal group. (See paragraph 3.)
Is this appropriate? If not, why not?

*Pfizer Response to Question 3:* We believe the guidance is appropriate.

**Question 4 – Newly acquired assets**

The Exposure Draft proposes that newly acquired assets that meet the criteria to be classified as held for sale should be measured at fair value less costs to sell on initial recognition (see paragraph 9). It therefore proposes a consequential amendment to [draft] IFRS X Business Combinations (see paragraph C13 of Appendix C) so that non-current assets acquired as part of a business combination that meet the criteria to be classified as held for sale would be measured at fair value less costs to sell on initial recognition, rather than at fair value as currently required.

Is measurement at fair value less costs to sell on initial recognition appropriate? If not, why not?

*<u>Pfizer Response to Question 4</u>:* We believe the guidance is appropriate.

**Question 5 – Revalued assets**

The Exposure Draft proposes that, for revalued assets, impairment losses arising from the write-down of assets (or disposal groups) to fair value less costs to sell (and subsequent gains) should be treated as revaluation decreases (and revaluation increases) in accordance with the standard under which the assets were revalued, except to the extent that the losses (or gains) arise from the recognition of costs to sell. Costs to sell and any subsequent changes in costs to sell are proposed to be recognised in the income statement.(See paragraphs B6-B8 of Appendix B.)
Is this appropriate? If not, why not?

*<u>Pfizer Response to Question 5</u>*:
We agree that costs to sell and any subsequent changes in costs to sell be recognized in the income statement but we do not agree with the reversal of impairment losses. We do not agree that impairment losses arising from the write-down of assets (or disposal groups) to fair value less costs to sell (and subsequent gains) should be treated as revaluation decreases (and revaluation increases). We believe that the provisions of SFAS 142 and SFAS 144, prohibiting the reversal of impairment losses on all long-lived assets, work well to avoid earnings management issues via the recognition and reversal of impairment losses. We believe that the recognition of impairment establishes a new cost basis for the impaired asset rather than establishing a fair value basis. We believe that viewing this as a new cost basis is consistent with the approach to similar assets which are not impaired. To reverse the impairment charge implies that the impaired assets are kept on a fair value basis while others are at cost. In our view, users of financial statements will be confused by having both cost and fair value basis accounting within the same class of asset.

We believe that for assets held for sale, a loss should be recognized for initial and subsequent write-downs to fair value less cost to sell and that a gain should be recognized for any subsequent increase in fair value less cost to sell, but not in excess of the cumulative loss previously recognized for a write-down to fair value less cost to sell as prescribed by SFAS 144.

**Question 6 – Removal of the exemption from consolidation for subsidiaries acquired and held exclusively with a view to resale**

The Exposure Draft proposes a consequential amendment to draft IAS 27 Consolidated and Separate Financial Statements to remove the exemption from consolidation for subsidiaries acquired and held exclusively with a view to resale. (See paragraph C3 of Appendix C and paragraphs BC39 and BC40 of the Basis for Conclusions.)
Is the removal of this exemption appropriate? If not, why not?

*Pfizer Response to Question 6*: We believe the guidance is appropriate.

**Question 7 – Presentation of non-current assets held for sale**

The Exposure Draft proposes that non-current assets classified as held for sale, and assets and liabilities in a disposal group classified as held for sale, should be presented separately in the balance sheet. The assets and liabilities of a disposal group classified as held for sale should not be offset and presented as a single amount. (See paragraph 28.)
Is this presentation appropriate? If not, why not?

*Pfizer Response to Question 7:* We believe the guidance is appropriate.

**Question 8 – Classification as a discontinued operation**

The Exposure Draft proposes that a discontinued operation should be a component of an entity that either has been disposed of, or is classified as held for sale, and:
(a) the operations and cash flows of that component have been, or will be, eliminated from the ongoing operations of the entity as a result of its disposal, and
(b) the entity will have no significant continuing involvement in that component after its disposal.
A component of an entity may be a cash-generating unit or any group of cash-generating units. (See paragraphs 22 and 23.)
These criteria could lead to relatively small units being classified as discontinued (subject to their materiality). Some entities may also regularly sell (and buy) operations that would be classified as discontinued operations, resulting in discontinued operations being presented

every year. This, in turn, will lead to the comparatives being restated every year. Do you agree that this is appropriate?

Would you prefer an amendment to the criteria, for example adding a requirement adapted from IAS 35 Discontinuing Operations that a discontinued operation shall be a separate major line of business or geographical area of operations, even though this would not converge with SFAS 144 Accounting for the Impairment or Disposal of Long-Lived Assets. How important is convergence in your preference?

Are the other aspects of these criteria for classification as a discontinued operation (for example, the elimination of the operations and cash flows) appropriate? If not, what criteria would you suggest, and why?

*Pfizer Response to Question 8*: We believe the guidance is appropriate.

**Question 9 – Presentation of a discontinued operation**

The Exposure Draft proposes that the revenue, expenses, pre-tax profit or loss of discontinued operations and any related tax expense should be presented separately on the face of the income statement. (See paragraph 24.) An alternative approach would be to present a single amount, profit after tax, for discontinued operations on the face of the income statement with a breakdown into the above components given in the notes.

Which approach do you prefer, and why?

*Pfizer Response to Question 9*:

We support the alternative approach that would result in convergence with SFAS 144. We believe that the presentation of revenue, expenses, pre-tax profit or loss of discontinued operations and any related tax expense as separate items on the face of the income statement will result in a cluttered presentation of information that could be viewed in the accompanying footnotes.