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Office of the Secretary  
PCAOB  
1666 K Street, NW  
Washington, D.C. 20006-2803

**Reference: Rulemaking Docket Matter No. 34**

Board Members:

Pfizer is a research-based, global biopharmaceutical company. We apply science and our global resources to improve health and well-being at every stage of life. We strive to set the standard for quality, safety and value in the discovery, development and manufacture of medicines for people and animals. Our diversified global healthcare portfolio includes human and animal biologic and small molecule medicines and vaccines, as well as nutritional products and many of the world's best-known consumer healthcare products. The Company's 2010 total revenues were \$67.8 billion and its assets were \$195.0 billion.

We appreciate the opportunity to present our comments on the Board's "Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements" and we recognize the Board's efforts in service to financial statement users. The concept release presents several alternatives for consideration – some quite far-reaching and problematic for both preparers and their auditors -- and others which would more clearly be seen as improvements.

While we understand that an expectation gap continues to exist between what auditors have responsibility for and what users perceive an audit to be, we agree with those investors who told the Board, during its outreach effort, that "...the pass/fail model and standardized language of the auditor's report provides consistency, comparability, and clarity of auditor reporting." In view of these positive characteristics of standardized language, we are less concerned than some about the use of so-called "boilerplate" of audit reports.

It is also not clear that standardized language can be avoided, given the cost in both time and effort, and the risk of confusion and liability that attends the notion of "custom-tailored" report language. However, we do appreciate and support the initiative to clarify the language of the auditor's report, and would support some of the changes discussed in the concept release.

In particular, we would agree that the audit report could be improved by adding standardized language that:

- defines the concept of reasonable assurance as it applies to the audit although we suggest that the definition of reasonable assurance be better defined than the current description of “high level of assurance but not absolute assurance” which is confusing
- explains that the audit is intended to provide reasonable assurance that the financial statements are free of material misstatement, whether caused by error or fraud
- describes management’s responsibility for the financial statements and related footnote disclosures
- clarifies the nature of footnote disclosures as an integral part of the financial statements, and that they are covered by the auditor’s report
- explains the limited nature of the auditor’s responsibilities regarding information outside of the financial statements. With respect to this, we find that AU 110 provides Plain English language that should be considered in crafting the language:
  - *The auditor has a responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, the auditor is able to obtain reasonable, but not absolute, assurance that material misstatements are detected. The auditor has no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by errors or fraud, that are not material to the financial statements are detected.*
  - *The financial statements are management's responsibility. The auditor's responsibility is to express an opinion on the financial statements. Management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, initiate, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements. The entity's transactions and the related assets, liabilities, and equity are within the direct knowledge and control of management. The auditor's knowledge of these matters and internal control is limited to that acquired through the audit. Thus, the fair presentation of financial statements in conformity with generally accepted accounting principles is an implicit and integral part of management's responsibility. The independent auditor may make suggestions about the form or content of the financial statements or draft them, in whole or in part, based on information from management during the performance of the audit. However, the auditor's responsibility for the financial statements he or she has audited is confined to the expression of his or her opinion on them.*
- states explicitly that the auditor is independent of the company and has complied with all applicable independence requirements of the SEC and PCAOB.

We don't believe that any of the proposals listed above would have a negative impact on audit quality or cost, and could be informative and clarifying for some financial statement users.

However, the concept release includes other alternatives that, in our view, would have significant adverse impacts on cost, audit committee governance, the auditor relationship, and that would raise serious concerns about liability. In addition, some of the proposals would only blur the boundaries around who owns and is ultimately accountable for the financial statements (management, not the auditor) and who is the most knowledgeable about the business that the financial statements purport to represent (again, management, not the auditors). Furthermore, certain of these proposals would subject companies to the personal views of an individual audit partner. Judgments are generally around the most subjective areas which often incorporate assumptions and estimates and, which are of the greatest concern to investors, are made by people, not companies or firms. Therefore, they do tend to be less consistent and given to more variability. Attempting to place the auditor's judgment at a higher level than management's will likely result in an adversarial relationship and less constructive debate between auditors and preparers which we view as resulting in a decline in audit quality.

Moreover, we believe that users of financials already have a wide collection of information available to them regarding risks and quality controls inherent in the process (although we note that these are contained in multiple documents as a result of various rulemaking) including, but not limited to:

- Management's Discussion and Analysis which provides a discussion of the critical accounting policies, the strategy of the company, the operating environment of the company which highlights the key risks impacting the business, significant changes in the period including acquisitions and divestitures, and impacts to revenue and net income;
- Section 302 certification of CEO and CFO regarding the assertion that the financial statements fully comply and the information contained in the report fairly presents the financial condition and results of operations of the company;
- Section 404 representations of management as well as the Auditor's report on internal controls;
- The Audit Committee report included in the Proxy materials indicating the procedures they have undertaken around the financial reporting process and the independence of auditors;
- Discussion of Board of Director independence in the Proxy materials; and
- Investment Analyst reports wherein such analysts often cover a specific industry and can provide a more in-depth perspective on industry and the company and challenges and opportunities to better understand the business and strategic risks. Unlike the financial report which focuses on the past, analyst reports tend to focus on the future of the company.

We discuss each of these alternatives below:

### **Required and Expanded Use of Emphasis Paragraphs**

The concept release explains that “required emphasis paragraphs could be beneficial to financial statement users through the auditor’s identification of significant matters and referencing where those matters are disclosed in the financial statements.” In short, auditors would now be asked to provide a guide to users so that they could easily and quickly get to the important parts. The literature already provides auditors with discretion to use such emphasis paragraphs, and there may be occasions when these paragraphs will be appropriate and useful. Our experience has been that users, as a population, vary widely and what is “important” to them varies widely and, in an effort to cover everything that is possibly “important”, auditor emphasis paragraphs could become unwieldy with the user no better served. Alternatively, without strict guidance as to what should be included, differing matters may be emphasized within a single industry leading users to a possible inappropriate conclusion that the matter is not significant at various companies in the same industry. Moreover, if there is a perceived need for guides to significant matters and key disclosures to be provided for every set of audited financial statements, then the SEC should require management to provide such additional disclosures, if needed, within its Management’s Discussion and Analysis.

We believe that the MD&A already requires these types of disclosures which are currently reviewed for consistency by the auditor and therefore, this would only serve to provide redundant information. We think this is an important matter of principle, and urge the PCAOB not to require the use of emphasis paragraphs for such purposes. Another important and relevant principle is that the auditor’s opinion is based on the financial statements taken as a whole: for this reason, emphasis paragraphs, when used, should relate to matters that pertain to “the whole” as it would otherwise come to represent a piecemeal opinion.

### **Auditor’s Discussion and Analysis**

The concept release describes the AD&A as something ranging from descriptive and objective information, such as a discussion of areas of audit risk and the audit procedures performed in relation to these areas of risk, to more subjective discussions including evaluations of management’s judgments and estimates, and “close calls”. We view the AD&A as a significant expansion of the auditor’s responsibility beyond his or her opinion of the reasonableness of the financial statements. This perception that financial statements and the judgments contained therein are extremely precise or that having them be fairly stated, in all material respects is not good enough indicates that the expectation gap between what preparers must contend with in the accounting rules (predicting future impacts in terms of certain reserves, predicting market participant views for fair value, predicting possible success rates for in-process research and development, etc), what auditors must do in performing an audit, and what users believe financial statements present continues to be wide.

The concept release indicates that “An AD&A could give the auditor greater leverage to effect change and enhance management disclosure in the financial statements....” This statement in, and of itself, creates further confusion around the role of the auditor versus the role of management and actually increases the

“expectation gap” between what an auditor’s responsibilities actually are and what users of the financial statements think auditors do. As you are aware, management owns and is responsible for the financial statements, while the auditor’s role is to provide assurance as to the reasonableness of the financial statements. The auditor assesses the reasonableness of the financial statements including the footnote disclosures but is not responsible for creating or enhancing those disclosures. In practice, auditors provide comments to the preparers of the financial statements including suggestions for improvements in disclosures. Like most preparers, we give serious consideration to the comments we receive from our audit team, so we do not view this perceived need for leverage as something that needs to be fixed.

Including discussions of evaluations of management’s judgments and estimates and “close calls” will only leave investors confused as to why varying views exist and why management is signing a Sec 302 assertion that the financial statements fully comply and the information contained within the report fairly presents the financial condition and results of operations of the company. We are not certain how the PCAOB will define “close calls” or “contentious issues”, but our experience is that these matters are generally not negative conversations or arguments. Instead, robust dialog and debate is undertaken around issues that are very complex, subject to interpretation, or use multiple assumptions and judgments. This debate is critical to ensuring that the issues are well understood, the various interpretations are examined and a thoughtful and appropriate answer is reached by the registrant and the auditor. These disclosures would likely undermine investor confidence because they would not be well understood given the lack of context.

We believe that Audit Committees would take such public discussions very seriously and financial statements may no longer represent management’s view, but rather, the auditor’s views in an effort to avoid such public commentary. We do not believe that investors or preparers are served well by this. Preparers may wind up submitting financial statements using the auditor’s assumptions or not enter into robust discussions of issues with their auditors to avoid getting a close call designation. This means that communication to the auditor may become more limited and that incorrect conclusions may be reached due to lack of discussion.

We believe that this is a giant step backwards in the gains reached since SOX 404 came into place and its interpretation immediately dampened communications between preparers and auditors around significant issues. Investors may “believe” that having the auditor’s views embedded in the financial statements is better, but again, the auditor’s view may not be the best or only view and without any context, the difference of views is likely to simply cause confusion and shift the responsibility for ownership of the financial statements to being jointly shared by management and the auditor. This of particular concern because such a view may not be standard, but rather, may be subject to the personal view of an individual audit partner who might be more, or even less conservative in his or her views than the company or other individuals in his firm based on his personal background, specific work issues, past dealings with the PCAOB, etc, none of which an investor could know.

We also believe that audit firms and individual partners would be subject to litigation from users. Again, it is important to remember that reasonable people can disagree, particularly when it relates to assumptions or estimates which are not black and white areas, or when it relates to areas that are so complex as to need multiple discussions between the auditor, preparer and, sometimes, the auditor’s professional

practice group to understand and evaluate the accounting rules which may be applicable. We note that, at times, the Big 4 accounting firms offer differing interpretations or guidance of rules and that these interpretations and guidance have all been made in good faith.

Because the auditor only gains limited knowledge through the audit, we do not believe that the auditor has more insight than management has provided within the MD&A or the financial statements. Finally, we believe that developing an AD&A report would be very inefficient for firms to have each partner preparing separate reports and ensure quality and consistency, and in fact, would likely result in a standardized, boilerplate report in the firm's attempt to control quality and limit litigation.

The concept release discusses potential disclosure by the auditor of "matters related to internal control over financial reporting that required significant deliberation by the auditor and management". This appears to re-open the definition of "material weakness" or to raise the question of whether "significant deficiencies" ought to be publicly disclosed. We believe that 2007 guidance from the SEC and PCAOB should be maintained, and would be very concerned to see such a fundamental change in the dynamics of SOX compliance and reporting.

A key principle that should be preserved is that the responsibility for the financial statements and related disclosures belongs to management, and that auditors should communicate their views on these matters to management and to the audit committee. If auditors are expected to disclose information that management deems to be confidential or inaccurate, there will be significantly less openness in communications with the auditors, as management will seek to minimize the impact of this problem. If auditors are required to express their viewpoint on management's estimates, judgments, disclosures, and selection of accounting policies/treatments, management and Audit Committees will often be faced with a difficult dilemma – conform to every preference of the auditor, or accept that auditor views may confuse users because they raise differences without context or how the auditor gained comfort with the financial statements being fairly stated in all material respects.

### **Auditor Assurance on Other Information Outside the Financial Statements**

It is sufficient that the auditors read this information and consider whether such information or its presentation is materially inconsistent with the financial statements they have audited. A statement to this effect, clarifying the extent of the auditor's responsibilities for such information, should be included in the audit report, to enhance the understanding of users. However, we do not see any benefit in requiring auditor attestation to the earnings release, and an audit of the MD&A would be very costly, relative to the benefit of added assurance thereby obtained, and would add significantly to the time required to issue annual reports

As a point of reference, our MD&A is currently 48 pages long and we believe would take a significant amount of time to audit. Additionally, the PCAOB standards for documentation would be difficult to complete in a timely manner because many of the items discussed are not specifically related to financial matters but rather relate to, in our case, non-financial information around research and development. As such, auditors would wind up verifying what phase a clinical trial is in, obtaining and documenting FDA

approvals, etc. These are not areas of expertise of an auditor and the auditor and are not subject to financial statement rules.

We also see additional downside risks in this proposal: first, that MD&A would morph into the Auditor's Discussion or that, to avoid conflicts and increase timeliness, registrants would put minimal information in their MD&A and investors would, in fact, receive less information than they do now. In the balancing of the possible benefits of increased auditor assurance against clear, concrete considerations of cost and timeliness of reporting, the benefits are, in our view, outweighed by a very wide margin.

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In summary, as described above, we would welcome, if it will decrease the current expectation gap, the addition of limited, standardized, clarifying language to the auditor's report, to enhance user understanding of the report. We are very concerned that the other alternatives outlined in the concept release would be very costly and would adversely affect the timeliness of corporate reporting. More importantly, they would also undermine the important principle that management is responsible for the company's financial reporting and blur the responsibilities between auditors and management. The unintended effects and practical and legal consequences of such a fundamental change and expansion of auditor responsibilities are a significant cause of concern.

Once again, we appreciate this opportunity to comment on this concept release and encourage the Board to continue to engage its constituents. We would be pleased to discuss our perspective on these issues with you at any time.

Very truly yours,

*Loretta V. Cangialosi*

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Senior Vice President and Controller

cc: Frank D'Amelio  
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