



Pfizer Inc.
235 East 42nd Street
New York, NY 10017-5755

Loretta V. Cangialosi
Senior Vice President and Controller

December 10, 2013

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

Reference: Rulemaking Docket Matter No. 34

Board Members:

At Pfizer, we apply science and our global resources to bring therapies to people that extend and significantly improve their lives. We strive to set the standard for quality, safety and value in the discovery, development and manufacturing of health care products. Our global portfolio includes medicines and vaccines as well as many of the world's best-known consumer health care products. Every day, Pfizer colleagues work across developed and emerging markets to advance wellness, prevention, treatments and cures that challenge the most feared diseases of our time. Consistent with our responsibility as one of the world's premier innovative biopharmaceutical companies, we collaborate with health care providers, governments and local communities to support and expand access to reliable, affordable health care around the world. For more than 150 years, Pfizer has worked to make a difference for all who rely on us. The Company's 2012 total revenues were \$59.0 billion and its assets were \$185.8 billion.

We appreciate the opportunity to present our comments on the Board's proposed auditing standards on the auditor's report (PCAOB Release No. 2013-005), and we recognize the Board's ongoing work in service to financial statement users. We acknowledge and commend the Board's efforts to reflect the advice and input of the many stakeholders in this process. In these proposals, the Board has addressed some of the most significant concerns expressed in our comment letter on the related concepts release. Several of the proposals in the release will likely improve the value of the auditor's report for financial statement users, but we also have reservations about some significant elements of these proposed standards.

We understand that it is sometimes difficult to strike the appropriate balance between investor "wants" and the concerns of preparers, but the Board also must recognize that the standards it promulgates have an impact not only on auditors, but also on auditee's resources, management time and audit committees. Below, we offer our comments and suggestions, which we hope will be helpful to the Board in moving forward with this project.

The proposed changes to the auditor's report which we considered to be most beneficial include:

- explaining that the audit is intended to provide reasonable assurance that the financial statements are free of material misstatement, whether caused by error or fraud;
- describing management's responsibility for the financial statements and related footnote disclosures;
- stating that the auditor is registered with the PCAOB and is required to be independent, although we would go further and have the auditor state explicitly that he complies with all SEC and PCAOB rules regarding independence;
- clarifying the nature of the auditor's responsibilities regarding information outside of the financial statements, if those responsibilities can be more clearly limited to information directly related to the financial statements and related disclosures, and supported by work the auditor would have performed to support his opinion (avoiding scope expansion and an expectations gap related to the meaning of "evaluate");
- disclosing the tenure of the auditor, only if the company has not already disclosed this information in the proxy (recognizing the increased value of providing this information earlier and in the appropriate context, we would expect most issuers to choose disclosure in the proxy).

We have several concerns and reservations about other aspects of the proposed standards. Broadly, we are concerned that these far-reaching changes are likely to present difficulties in application, costs and unintended adverse consequences, without producing actual substantive benefits to users of the financial statements. Although propelled by statements from investors indicating that they want these changes, they are not clearly supported by convincing evidence of the benefits that investors would receive from them. It is not clear to us that these changes will provide information beyond that which is already provided by management, or that additional, previously undisclosed information, can be provided without exposing the company and its shareholders to additional costs and other negative consequences. The costs, on the other hand, are real.

As expressed in our letter in response to the concept release, we believe these uncertainties could best be addressed by a field-test designed to determine how these proposals could best be operationalized to balance costs and benefits, and to avoid unintended or undesired consequences.

We see the added work and time related to the evaluation and documentation of critical audit matters (CAMs) and the evaluation of other information, as a diversion of time and attention of members of the audit committee, management, and the auditors during a critical phase of the audit, when everyone is already busy with essential tasks related to wrapping up the audit and meeting tight deadlines for reporting. The added time to appropriately document and discuss CAMs will not result in improved quality of the audit and in fact, may cause other quality checks done by auditors to receive less focus as they undertake this new work at a critical time.

As expressed in our previous letter in response to the concept release, we see potentially serious problems resulting from the shift of some reporting and disclosure roles to the auditors, and would much prefer to maintain the principle that management is the source of disclosures about the company's accounting. We question whether the net impact on audit cost and quality will be acceptable in view of the uncertain benefits. Again, in view of these uncertainties and potential consequences, the value of field-testing these proposals cannot be overstated.

We note that strong support has been expressed for retaining the pass/fail model for audit opinions, and that the proposed changes, taken together, will add significantly to the length of the report and will add language, particularly in connection with the discussion of critical audit matters, that could have the effect of communicating implicit qualifications to the auditor's opinion. Those who understand auditing will also understand that the auditor must have fully satisfied himself to have issued an unqualified opinion, but those who do not have an understanding of the process may misinterpret CAMs to be "trouble spots" or areas where the company was "aggressive" in its accounting. The potential for such confusion ought to be weighed carefully in framing the final version of these standards and we offer some suggestions in the Appendix to this letter.

In addition to these broad concerns, we have specific comments on the proposals for reporting critical audit matters and the evaluation of other information.

Critical Audit Matters

With respect to the inclusion of critical audit matters (CAM) in the auditor's report, we are particularly concerned about the potential for excessive disclosures that would be harmful to the company and its shareholders. The proposed standard should follow the IAASB example and make clear that the CAMs ought to be chosen from those matters discussed with the audit committee, and that only the most significant matters should be chosen to be included in the report (not all such matters). If a CAM does not rise to the level of an audit committee discussion, it should not be included in the auditor's report. Otherwise, it can reasonably be expected that auditors will "throw in the kitchen sink" to prevent any potential issues in later inspections by the PCAOB, or even litigation.

To demonstrate the reality of this behavior, we only have to look at the current "risk factors" section of SEC filings, where even obvious risk items are put in to guard against possible second guessing and to decrease the risk of potential litigation. The inspection process will drive behavior and therefore, we would recommend an ongoing monitoring mechanism be put into place that will help the PCAOB see if there is an increase in CAMs after the first inspection cycle and correlate whether investors are finding increased value from the increased listing of generic issues. As a large, global company, we are concerned with not only the increased effort and resources needed for this effort, but also whether investors will truly be getting relevant and more than tangentially useful information.

The standard should make clear that CAMs discussed in the auditor's report would not be expected to include specific disclosures of trade secrets or other proprietary information that would be harmful to the company's competitive position, a significant deficiency not required to be disclosed by the company under SOX, or sensitive information that would prejudice the company's position in respect of potential litigation. The auditors have access to confidential information that can harm a company's shareholders without providing any tangible benefit to other potential investors – there have to be some reasonable limits to avoid such unintended adverse effects and provide an acceptable balance. We continue to believe that management, not the auditors, should be responsible for providing the original source of such information.

It is also important that the presentation of CAMs in the auditor's report must make clear that CAMs are not indicators of "aggressive" accounting by management. If the auditor is commenting on an area of the company's accounting that is inherently challenging for both management and the auditor, because the rules for accounting in that area involve complex or subjective assessments, that should be made very clear. We suspect that as many readers will be confused by the addition of CAMs to the report as will find it enlightening, and that many will perceive the CAMs as equivalent to qualifications of the auditor's opinion.

We ran a quick field test to determine what issues we might surface in dealing with CAMs, but did not include input from other senior management or the Audit Committee members. What we determined was:

- the report grew to 6 pages in length;
- the report contained information that aligned with our critical accounting policies which did not add additional useful information;
- the report contained items that we were surprised were considered CAMs as they had never been a subject of significant discussion with the Audit Committee;
- the report contained some added useful information regarding additional steps the auditor undertook to audit the CAM; and
- context setting of the CAM was particularly important as otherwise a reader could easily misinterpret that the CAM was the result of a company-specific anomaly or accounting interpretation.

Given that we and our auditor were reading the same document and coming up with different views as to what a CAM was, I believe that the definition of a CAM is too far-reaching and will result in a large number of items considered CAMs without adding significant value. When coupled with the current proposal's requirement that the auditor document why audit matters that would appear to meet the definition of a critical audit matter were not communicated, the likelihood of an auditor putting in all matters is high. They will err on the side of putting too much in so as not to be criticized later. There is no "upside" for an auditor to use judgment and face an "audit failure". Because our current accounting model has evolved to be very complex and requires the use of estimates that inherently have uncertainty, and these estimates are throughout the financials, the number of CAMs will be very high for many companies, and not very meaningful for investors.

Some of our concerns are as follows:

- For example, the auditor relies on an actuarial expert for a pension plan, and, as we know, pension plan accounting is complex. It includes many assumptions, so the auditor reports that as a CAM. While this might appear to be a CAM on its face, the Board should recognize that it is likely that every company that has a pension plan will wind up with a CAM like this. We question the usefulness of such a CAM as it is not unusual or specific to the nature of the plan or the company, but is merely based on the complexity of required (there are no other alternatives) accounting. This will become a “boilerplate” disclosure.
- We can easily see CAMs covering all areas where level 3 fair values must be provided. These inputs are defined as unobservable or based on a hypothetical market participant; therefore, by their very nature they are difficult to determine, even for the preparers who must come up with a way to produce such values. Valuation specialists are very often used in these areas due to their inherent complexity. While investors might express usefulness in “knowing” that this is difficult to determine, we are surprised they don’t already know that since they are the same people who drove this model with the FASB, and this information is in the company’s financial statements and MD&A.
- Likewise, investors have played a role in making estimates a significant part of the process in areas like revenue recognition where future deductions must be determined at the time the sale is made. CAMs will show up in these areas as revenue is critical for every company and these will be boilerplate disclosures as well.
- Another example of a possible CAM that could lead an investor to misinterpret standard auditing practice for some anomaly that created additional scope changes has to do with the way many multinational companies are organized. Most global, multinational companies have instituted shared services organizations to streamline costs and standardize practices in financial accounting. Auditors must appropriately scope and determine the impact of such shared services on their audit procedures and the nature of work that will be performed in the shared service and that which will be performed in a local market. Such scoping requires judgment and can be difficult. We can foresee CAMs being created for such items which, in our view, do not add any additional value to an investor’s view of the financial statements.

We are concerned that there could be unanticipated adverse impacts resulting from the auditors being required to discuss critical audit matters in the audit report. It seems very likely that the transformation of the auditor’s report into a vehicle for separate disclosures about a broad range of sensitive and otherwise confidential matters will lead to less openness between management and the auditors. Rather than have a discussion with the auditor about a matter which we are struggling with which could then possibly trigger a CAM, we might delay that discussion until we have fully worked out a documented solution and final arguments to support the position, to avoid the audit team viewing it as “difficult”. It must be well understood that, along with the perceived benefits, there will certainly be costs to the shredding of the confidentiality that currently exists in the auditor’s role.

Other Information

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, as the proposed standard is written, with the "read and evaluate" concept, we are concerned that auditors will have to perform substantial additional procedures that 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.

We also are concerned with setting an expectation gap with investors about what "evaluate" means in this context. As you are aware, the definition of "evaluate" is "to judge the value or condition of (someone or something) in a careful and thoughtful way." We also note that the general layperson's definition of the term "audit" means "a complete and careful examination of the financial records of a business or person, or a careful check or review of something. These terms are very difficult to distinguish from a general meaning perspective and the term "evaluate" sets a much higher bar than the current "consider" language.

One example given has been for an auditor to evaluate the statement: "is the leading company...." We see this as being problematic for the auditor to have to correlate all data to understand whether it is leading in revenues, assets, manufacturing throughput or some other measure. Further, an investor will not understand what statements were or were not evaluated, thereby providing a false sense of comfort.

We believe the standard should only apply to other information directly related to the financial statements covered by the audit opinion; and it should be very clear that auditors should not be expected to perform additional procedures to verify other information. For example, in our own MD&A, there is an extensive discussion of non-financial information about research and development. As discussed in our earlier comment letter, significant time and effort would be spent verifying what phase a clinical trial is in, obtaining and documenting FDA approvals, etc.

There is a significant risk that this additional work would adversely affect the timeliness of reporting and put added pressure on management to not only answer inquiries, but also to formally document them for the auditors at a level sufficient for PCAOB inspectors. Our view is that this exercise would add significant audit time and cost as well as management time without resulting in any added benefit -- most companies already have extensive disclosure controls and procedures in place to review such information, incorporating a high level cross-functional team that will include senior management, finance, business leaders, legal, investor relations, internal audit and others.

As with critical audit matters, we believe that these proposals would benefit from field testing to better define what an investor will truly find useful around CAMs, the likely impacts on cost and timeliness of reporting, the potential unintended consequences, and the anticipated benefits of changes in this area.

* * * * *

In summary, as described above, we recommend a robust field test of the proposed standards to provide insight into the costs and benefits and to guide the clarification and enhancement of these proposals, prior to issuance of the final version of the proposed standards. We continue to be very concerned that the proposed approach to critical audit matters and the evaluation of other information would be very costly and would adversely affect the quality of the audit and 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 these proposed standards 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

Loretta V. Cangialosi
Senior Vice President and Controller

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

Appendix: Specific suggestions on the proposal

The Auditor's Report:

- Paragraph 5i, change requested to delink the notion of independence from the tenure of the auditor: If not disclosed in the proxy statement of the company, a statement containing the year the auditor began serving consecutively as the company's auditor;
- Paragraph 8 change requested to ensure that any of these items are communicated to the audit committee and that an appropriate level of significance is obtained: Critical audit matters ordinarily are matters of such importance that they are included in the matters required to be ~~(1) documented in the engagement completion document; (2) reviewed by the engagement quality reviewer; (3) communicated to the audit committee as part of an audit planning document, interim update or as part of the year end-process; or (4) any combination of the three.~~
- Paragraph 9, changes requested as "the most difficult" seems to imply only one item and the context of the complexity of the accounting principles is an important consideration, severity of deficiencies should only be addressed in the case of a material weakness: Certain factors might affect whether a matter addressed during the audit of the financial statements (1) ~~involved very the most difficult significant~~, subjective, or complex auditor judgments; (2) had an very high level of posed the most difficulty to the auditor in obtaining sufficient appropriate evidence; or (3) ~~posed the most difficulty~~ to the auditor in forming an opinion on the financial statements. In determining whether a matter is a critical audit matter, the auditor should:
 - consider the complexity of the accounting principles that are required to be applied and whether there are any unusual circumstances that would make the audit of such an area more difficult for the specific entity being audited,
 - whether the matter is unusual in nature,
 - whether the matter has been the subject of a robust discussion with the audit committee
 - whether the matter is company-specific (in terms of accounting, obtaining of audit evidence, requiring of specialists, etc) or is it a matter that is generic in nature, that is, similar efforts and procedures would be undertaken in any company and such a matter is no unusual circumstances (for example, pension accounting might use estimates and a specialist, but may have no special circumstances, so there would be no incremental effort by any other auditor).
 - and take into account the following factors, as well as other factors specific to the audit:
 - a. The degree of subjectivity involved in determining or applying audit procedures to address the matter or in evaluating the results of those procedures;
 - b. The nature and extent of audit effort required to address the matter;
 - c. The nature and amount of available relevant and reliable evidence regarding the matter or the degree of difficulty in obtaining such evidence;
 - d. ~~The severity of control deficiencies identified relevant to the matter, if any;~~

- e. The degree to which the results of audit procedures to address the matter resulted in changes in the auditor's risk assessments, including risks that were not identified previously, or required changes to planned audit procedures, if any
- f. The nature and significance, quantitatively or qualitatively, of corrected and accumulated uncorrected misstatements related to the matter, if any;
- g. The extent of specialized skill or knowledge needed to apply audit procedures to address the matter or evaluate the results of those procedures, if any; and
- h. The nature of consultations outside the engagement team regarding the matter, if any.

Auditor's Report – paragraph on critical audit matters

The standards of the PCAOB require that we communicate in our report critical audit matters relating to the audit of the current period's financial statements or state that we determined that there are no critical audit matters. Critical audit matters are those matters addressed during the audit that (1) involved our most difficult, subjective, or complex judgments; (2) posed the most difficulty to us in obtaining sufficient appropriate evidence; or (3) posed the most difficulty to us in forming our opinion on the financial statements. The critical audit matters communicated below do not alter in any way our opinion on the financial statements, taken as a whole. Critical audit matters are normal during the course of an audit and generally occur as a result of the inherent complexity in the required accounting standards and the uncertainties and assumptions surrounding estimates required to be made to comply with generally accepted accounting standards in the United States of America.