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September 15, 2006

Nancy M. Morris, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090

Reference: File Number S7-11-06
Concept Release Concerning Management's Reports on Internal Control Over Financial Reporting

Dear Ms. Morris,

Pfizer is a research-based, global pharmaceutical company with its principal place of business in New York. We discover, develop, manufacture and market leading prescription medicines for humans and animals and many of the world's best-known consumer products. The Company's 2005 total revenues were $51.3 billion and its assets were $117.6 billion. We appreciate the opportunity to present our comments and observations in response to the Concept Release, as we firmly believe that strong internal controls over financial reporting are essential to the integrity of an entity's financial statements.

Overall, we continue to support the Sarbanes-Oxley Act of 2002 (Act), as it was designed to enhance investor confidence in financial reporting and improve the protocols around corporate governance and auditor independence. We applaud the SEC for its continued efforts to ensure that issuers have sufficient guidance to support efficient compliance with the requirements of Section 404.

While there is a need for interpretive guidance in specific areas, many issuers have already developed robust processes for performing their assessment of internal controls. Therefore, such guidance should not be overarching and prescriptive. The most effective guidance would provide latitude for management to consider risk and other relevant factors in designing its assessment processes. Consequently, we strongly support principles-based interpretive guidance rather than a rule.

To truly be effective, Auditing Standard 2, *An Audit of Internal Control over Financial Reporting in Conjunction with an Audit of Financial Statements* (AS2), must be revised to conform to any new SEC guidance. We adopted a reliance model whereby our external auditors are able to rely on the work of our internal auditors. Under this model, our internal auditors' work follows the requirements of AS2. Further, if AS2 remains more stringent than guidance issued by the SEC, we would most likely continue to need to follow AS2 guidance so as to not incur incremental costs by doing management's assessment one way and having the external auditors perform their assessment in another way. We believe this is an unfortunate consequence of the requirement that external auditors not only attest to management's assessment of internal controls, but also that the auditors attest to the effectiveness of the design and operation of those controls. As we have previously communicated, this second opinion is the main source of excessive compliance costs.

In particular, AS2 needs to be clarified with respect to: materiality; the evaluation of deficiencies; the risk-based approach; reliance on company level controls; and testing required in the rollforward period. We view these clarifications as lessening the financial burden and demand on resources while adhering to the "spirit" of the Act, without reducing the benefits being realized through compliance with the Act.

Our comments related to specific questions posed in the Concept Release are included in the attachment to this letter.

Once again, we appreciate this opportunity to comment on this Concept Release and encourage the Commission to continue to engage its constituents. We would be pleased to discuss our observations with you at any time.

Very truly yours,

Loretta V. Cangialosi

Loretta V. Cangialosi
Vice President and Controller

cc: Alan Levin
Senior Vice President and Chief Financial Officer

David Shedlarz
Vice Chairman

Attachment
Concept Release Concerning Management's Reports on Internal Control Over Financial Reporting

1. Would additional guidance to management on how to evaluate the effectiveness of a company's internal control over financial reporting be useful? If so, would additional guidance be useful to all reporting companies subject to the Section 404 requirements or only to a sub-group of companies? What are the potential limitations to developing guidance that can be applied by most or all reporting companies subject to the Section 404 requirements?

Additional guidance may be useful for some companies, primarily those whose external auditors do not rely on management's testing as a significant portion of the evidence supporting the internal control effectiveness audit opinion and those smaller companies who have not yet adopted. However, many companies have achieved significant reductions in external audit fees by conforming to the stringent requirements of PCAOB auditing standards (especially AS2). Therefore, although we see some benefits from new guidance, we remain concerned about potential drawbacks.

Most companies have invested substantially in the development of SOX compliance programs, and it is important that new guidance not present new burdens – both in terms of cost and effort. Guidance for management should therefore not be required for issuers to adopt, but rather be considered an option for issuers to consider.

3. Should additional guidance be limited to articulation of broad principles or should it be more detailed?

In specific areas we have highlighted the need for more detailed guidance. However, we believe that sweeping changes or overly prescriptive guidance would actually cause added inefficiencies and hinder the process.

4. Are there additional topics, beyond what is addressed in this Concept Release, that the Commission should consider issuing guidance on? If so, what are those topics?

The current literature does not provide sufficient guidance on the testing requirements when a SAS No. 70 report is received with a qualified opinion. The guidance does not clearly define the issuer's and external auditor's testing responsibilities when a qualified opinion is received in a SAS No. 70 report and the service provider's deficiencies are subsequently remediated prior to the issuer's year-end. As SAS No. 70 reports are typically received in close proximity to year-end, this poses a particularly difficult problem for issuers, as it leaves little opportunity to respond to reported exceptions. If the service provider's external auditor does not update the SAS No. 70 report, we do not believe that the issuer should have the responsibility to test the remediation of the deficiency at the service provider. We believe that reasonable assurance can be achieved by obtaining a stub period representation letter from the service provider.

5. Would additional guidance in the format of a Commission rule be preferable to interpretive guidance? Why or why not?

While there is a need for interpretive guidance in specific areas, most large issuers have already developed robust processes for performing their assessment of internal controls. Therefore such guidance need not be overarching and prescriptive. Any new guidance should provide latitude for management to consider risk and other relevant factors in designing its assessment processes. Consequently, we would strongly prefer principle-based interpretive guidance rather than a rule.

8. Why have the majority of companies who have completed an assessment, domestic and foreign, selected the COSO framework rather than one of the other frameworks available, such as the Turnbull Report? Is it due to a lack of awareness, knowledge, training, pressure from auditors, or some other reason? Would companies benefit from the development of additional frameworks?

Time pressure in Year 1, greater familiarity with COSO in the United States, and concern re: adopting a framework few other companies were using – all contributed to the widespread adoption of the COSO framework. The development of additional frameworks could be beneficial and may enable companies to identify more effective approaches to evaluating and improving internal controls.

10. We also seek input on the appropriate role of outside auditors in connection with the management assessment required by Section 404(a) of Sarbanes-Oxley, and on the manner in which outside auditors provide the attestation required by Section 404(b). Should possible alternatives to the current approach be considered and if so, what? Would these alternatives provide investors with similar benefits without the same level of cost? How would these alternatives work?

The requirement of two internal control opinions from the external auditors seems overly burdensome and, we believe, warrants revisiting. Section 404 of the Act requires each registered public accounting firm to "attest to, and report on, the assessment made by management of the issuer" (emphasis added). The Act itself does not require a standalone opinion on the effectiveness of internal controls. This added requirement is the result of an SEC action. We believe this additional requirement has been a key driver in the increased cost of compliance. Compliance with the SEC rule requires a level of planning, testing and documenting by the external auditors that greatly exceeds the level required to evaluate management's assessment.

If an external auditor disagrees with management's assessment, an adverse opinion on management's assessment would be expressed. The scarcity of such adverse opinions in the first two years of SOX 404 compliance suggests management assessments have been properly conducted and that a second opinion from the external auditor may be excessive and the incremental cost unjustified. As we continue in our third year of compliance, we respectfully request that the necessity of two audit opinions be reexamined.

11. What guidance is needed to help management implement a "top-down, risk-based" approach to identifying risks to reliable financial reporting and the related internal controls?

We advocate the introduction of more specific guidance in this area because AS2 does not clearly establish a top-down, risk-based model. Given the importance of AS2 to most issuers, new guidance that is also adopted in a revised version of AS2 would be beneficial.

Existing guidance does not clearly provide a methodology to ensure that the benefits of strong company-level controls translate into efficiencies in the Section 404 effort. It is clear that the most serious and well-known failures of controls that precipitated the introduction of Section 404 have occurred at the top, but we find that testing of controls at lower levels remains the major focus of the compliance effort. There is insufficient detailed guidance to enable companies with strong entity-level controls to significantly reduce account and transactional control testing. For example, how does a strong compliance mindset by senior management result in reduced testing in the procure-to-pay transaction cycle? We all know that the top-level controls do contribute to improved internal controls, but there is no roadmap or methodology to quantify it under AS2.

Barriers to the implementation of a top-down, risk-based approach are such factors as the prevalence of required audit coverage ratios adopted by external audit firms, the limited impact of prior-year testing experience in determining the nature and extent of current-year testing, a focus on detailed transaction testing and we believe, an overly conservative approach currently mandated by the language of AS2 to rollforward testing.

Due to AS2, prior year walkthrough and testing experience has generally been ignored as each year must stand on its own. If a business process is stable, and previous testing has shown that controls are operating effectively, it is unlikely that control deficiencies will suddenly appear. Repeated testing of these controls is not consistent with a risk-based approach. We suggest that a more efficient approach would be to factor in knowledge of the past to determine the extent of the potential risk of a process or account. For example, if neither the process nor the system changed, but there has been a significant turnover of personnel, testing may then focus only on the risk of key controls being performed incorrectly and be limited to some transaction testing of performance or a review of procedures developed to educate personnel. In many cases, when no significant changes are present, only a walkthrough may be necessary.

19. What type of guidance would help explain how entity-level controls can reduce or eliminate the need for testing at the individual account or transaction level? If applicable, please provide specific examples of types of entity-level controls that have been useful in reducing testing elsewhere.

Specific entity-level control issues should be addressed in the SEC guidance as the opportunity to reduce testing and cost of compliance based on strong entity-level controls has not been well defined in existing guidance. This represents an opportunity for the SEC to assist issuers to rationalize their compliance efforts. The greatest benefit appears to be testing entity-level controls rather than low-level account and transactional controls. It would be helpful to have guidance on how the results of the entity-level assessment are considered when determining the nature, extent, and timing of the testing of low-level account and transactional controls. Greater reliance on entity-level controls should allow for less detailed transactional testing especially in areas of lower risk. New guidance should include specific examples of how strong entity level controls could reduce or eliminate further testing in certain areas.

We do not believe that there should be different guidance for companies based on size or industry.

23. Would guidance be useful on the timing of management testing of controls and the need to update evidence and conclusions from prior testing to the assessment "as of" date?

Yes. Currently management's default guidance, AS2, implies that every key control must be tested at least once in the fourth quarter. The cost-benefit of this approach is very hard to justify, as even testing one sample size of a control requires a level of planning, coordination and execution that can be a burden for issuers. As a global company with multiple processes and IT systems encompassed in our transactional cycles, testing every key control in the fourth quarter is a burdensome distraction of little value as very few deficiencies have been identified by this testing. We believe the risk of finding a significant deficiency is low when these key controls are tested during the year and no major deficiencies exist by the fourth quarter, coupled with no change to the associated people, process or systems. Our experience supports this belief. We therefore request guidance that encourages testing of internal controls throughout the year, based upon assessed risk, along with a review for significant changes during the fourth quarter which might warrant additional testing.

24. What type of guidance would be appropriate regarding the evaluation of identified internal control deficiencies? Are there particular issues in evaluating deficient controls that have only an indirect relationship to a specific financial statement account or disclosure? If so, what are some of the key considerations currently being used when evaluating the control deficiency?

Additional guidance would be advantageous in the area of the evaluation of deficiencies. While the direction provided by AS2 and the Framework for Evaluating Control Exceptions and Deficiencies designed by the external accounting firms (the "Framework") are helpful for deficiency evaluation, several open issues remain. For example, how should deficiencies in information technology general controls be aggregated? Should the potential impact of unremediated deficiencies be aggregated with remediated deficiencies? Should aggregation by significant account include absolute values or is it appropriate to net the effects of offsetting deficiencies?

There is a lack of guidance for management regarding evaluation of deficient controls with an indirect relationship to a specific account or disclosure. The Framework does address certain aspects of deficient information technology general controls. However, guidance could be helpful for other COSO elements which may be indirectly linked to controls over financial reporting.

In summary, we are requesting that the SEC guidance for management address aggregation of deficiencies, including comprehensive examples. SEC guidance should also address the evaluation of deficiencies that are indirectly related to internal controls over financial reporting.

25. Would guidance be helpful regarding the definitions of the terms "material weakness" and "significant deficiency"? If so, please explain any issues that should be addressed in the guidance.

Deficiencies are required to be evaluated for significance, individually and in the aggregate. Significance is primarily measured in terms of the potential impact on the financial statements. AS2 indicates that the assessment should consider both quantitative and qualitative factors, but does not distinguish between the assessment of deficiencies that affect the income statement and the assessment of deficiencies that only affect the balance sheet (reclassifications between account balances). The management guidance should indicate that the quantitative thresholds used to evaluate deficiencies should be determined by the financial statement impacted by the deficiency.

Furthermore, the methodology being used to determine materiality, as used to evaluate control deficiencies, is not being consistently applied in practice. In particular, management guidance is needed for the measurement of "more than inconsequential". Although common approaches to this quantification problem are being broadly adopted, there is insufficient guidance to provide authority for such an approach. Without such guidance, issuers must essentially agree with external auditor judgments on materiality, which may be set arbitrarily low.

29. Is guidance needed to help companies determine which IT general controls should be tested? How are companies determining which IT general controls could impact IT application controls directly related to the preparation of financial statements?

IT general controls require significant testing and documentation even though experience has shown they do not pose significant financial statement risk. Deficiencies in IT general controls, for example, physical security controls, generally are mitigated by other compensating controls. Guidance is needed that will permit judgment in selecting which IT general controls to test, and to permit a risk-based approach in testing those controls.

Such guidance should include the use of an IT risk assessment to support different testing approaches for general controls, based upon the relative risk of each IT application considered in-scope for SOX. This model should reflect the risk that each IT application contributes to internal controls over financial reporting. Criteria supporting the risk assessment model should consider various factors, including: system development (e.g., proprietary, generic external purchase, etc.), maturity, volume and nature of changes, pervasiveness of use, functionality of underlying application controls relied upon (e.g., standard reports, automated workflow, complex algorithms, etc), extent of interfaces with other IT applications, risk of associated financial processes, proximity to financial reporting, IT hosting environment (e.g., unsecured server room, secured data center, third-party hosting, etc.) and audit history. A composite weighted-average of risk factors similar to these for all SOX-related applications will indicate the relative risk each application contributes to internal controls over financial reporting.

This above IT application risk assessment model supports a risk-based IT general controls review for all SOX-related applications, with most of the testing effort focused on those applications rated as medium or high risk. For low-risk applications, an embedded self assessment process with appropriate top-side monitoring controls is an approach that balances risk and compliance effort. In summary, an IT application risk assessment model, combined with tailored risk-based testing strategies, can yield significant efficiencies.