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August 23, 2013

Mr. Russell G. Golden, Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Mr. Hans Hoogervorst, Chairman
International Accounting Standards Board
30 Cannon Street
London EC 4M 6XH
United Kingdom

Via email: director@fasb.org

Re: Joint FASB-IASB Revenue Recognition Project

Dear Sirs:

Eli Lilly and Company appreciates the opportunity to comment on the tentative decisions as they relate to the Financial Accounting Standards Board (FASB) and International Accounting Standard Board's (IASB's) Proposed Accounting Standards Update, "Revenue from Contracts with Customers." Eli Lilly is a large, multinational company that creates and delivers innovative medicines that enable people to live longer, healthier, more active lives.

We have been active participants in the standard making process and have stayed current on actions taken in the FASB/IASB meetings. While we generally support the various changes made through the re-deliberations process, and believe that a majority of the changes will result in a consistently applied standard that is operationally efficient, we do have certain concerns. Our primary concern is with the tentative decision made at the Joint Session of the Boards of the IASB and the FASB on July 24, 2013, which we understand requires the recognition of a "minimum amount" of variable consideration based on future events (that should not result in a subsequent significant reversal) in the estimate of a transaction price.

In our comment letter on the original revenue recognition exposure draft in October 2010, we shared our concerns related to the proposed accounting for royalty income. When the re-exposed standard was released we agreed with the language added (paragraph 85) to articulate a more complete understanding of the boards' intentions on the recognition of revenue from royalties.

During re-deliberations, decisions were made to eliminate the paragraph 85 exception and introduce more principles based language, but we understood the intent was to include revised language that would have the same result as paragraph 85 (i.e. no royalties would be recognized prior to sale by the customer of the product that would trigger the royalty obligation). However, our understanding of the discussion at the July meeting is that recording of some "minimum amount" of royalty income may now be required. While we appreciate the boards' effort to focus on principles and limit exceptions, we do not believe that any revenue model that accelerates the recognition of royalty revenue in advance of the sale by the third party, which triggers a payment obligation to us, provides useful information to users of the financial statements. We also question whether it makes sense that we would recognize royalty income on sales

that are not yet recognizable by the party responsible for the sales of the actual product to the end customer.

We have had conversations with a stock analyst regarding the proposed ASU's treatment of royalty revenues. The analyst noted that the boards' approach of recognizing royalty streams earlier than the actual sales by the third party would add unnecessary complexity to the analysis of financial statements. This could lead to increased emphasis on non-GAAP analyses, as users will then be inclined to adjust these amounts out of the results.

Further, we believe that the removal of paragraph 85 and replacement with language concerning constraints to revenue that is reasonably assured and not having a likelihood of significant reversal will result in inconsistent application of this standard. Significant judgment will be required in an effort to estimate the "minimum amount," including potential sales to be made by other companies, which will inherently lead to inconsistencies in approaches between companies and will open the door for substantial diversity in practice. Additionally, the effort to perform this task on all of our royalty arrangements, including the quarterly reassessments, will likely be onerous as we do not currently have insight into the product sales expectations. We also anticipate challenges with our auditors as they design and execute standard auditing procedures surrounding amounts so subjective and with so little support.

We participated in a working group that had developed a "constraint-working draft" document. Within this document, paragraph 82 established criteria for indicators that an entity's experience is not predictive of the amount of consideration to which the entity will be entitled. Part (a) of the criteria specifically excludes those amounts highly susceptible to factors outside the entity's influence (i.e. consideration that is contingent on the customer's subsequent sales of a good or service). It seems reasonable to us that this limitation should also apply to the "minimum amount" to be recognized. Please consider maintaining the criteria originally contemplated in paragraph 82 of the working group document in your final standard.

In summary, we believe that the inclusion of a "minimum amount" of royalty revenue in the proposed revenue model does not generate useful information for users of the financial statements and that it creates significant operational difficulty. We believe that the boards should exclude royalties from the estimation of variable consideration and retain the paragraph 85 accounting, recognizing royalty revenue when the sales that trigger the royalty occur. We would also support a policy election noted by disclosure since other industries may have different facts and circumstances surrounding royalty income.

We appreciate the opportunity to express our views and concerns regarding the tentative decision reached at your July meeting. If you have any questions regarding our response, or would like to discuss our comments further, please call me at (317) 651-2310.

Sincerely,

/S/Donald A. Zakrowski
Vice President, Finance
and Chief Accounting Officer