



Eli Lilly and Company
Lilly Corporate Center
Indianapolis, Indiana 46285
U.S.A.

www.lilly.com

July 11, 2014

Technical Director
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2014-200 – *Conceptual Framework*

Dear Director:

Eli Lilly and Company (“Lilly”) appreciates the opportunity to comment on the Financial Accounting Standards Board’s (the “Board”) Proposed Statement of Financial Accounting Concepts, “*Conceptual Framework for Financial Reporting – Chapter 8: Notes to Financial Statements*” (the “Exposure Draft”). Lilly is a multinational pharmaceutical company with legal entities in over 50 jurisdictions.

Lilly supports the Board’s objective to improve the effectiveness of disclosures in notes to financial statements by clearly communicating the information that is most important to users of each entity’s financial statements. We also support developing a disclosure framework to achieve this objective.

In order to develop a suitable disclosure framework, we believe it is critical to properly define the type of information content that is appropriate to be included in the notes to financial statements. As with the discussion paper, “*Invitation to Comment – Disclosure Framework*” issued in July 2012, we are troubled by the forward-looking nature of many of the indicated disclosures noted in the Exposure Draft. It is critical to understand that information provided within the financial statements and footnotes is subject to external audit and XBRL tagging and is not subject to Safe Harbor rules. However, information provided under the SEC Regulation S-K (and the MD&A and market risk disclosures within) is not subject to external audit or detailed tagging, and includes unauditable, forward-looking information subject to Safe Harbor rules. We believe the information included in the notes to financial statements should be limited to historical financial information, descriptions of management’s judgments and estimates and relevant accounting policies. Forward-looking information should be restricted to MD&A.

Following are responses to selected questions in the Exposure Draft:

Question 1: Should financial statements of employee benefit plans be excluded from the scope of this chapter of the conceptual framework?

Yes. We believe an employee benefit plan's financial statements and their users are sufficiently different from business entities and not-for-profit entities and warrant different considerations in reporting.

Question 3: Do the concepts in this chapter encompass the information appropriate for disclosure in notes to financial statements that would assist resource providers in their decision making? Are there concepts that should be added or removed?

We believe all aspects that require speculation on behalf of the reporting entity should be removed (for example, potential litigation, suspected violations of laws, regulations or contractual terms).

In addition, refer to our answer to Question 8 regarding disclosures that we believe are better suited outside of the notes to financial statements.

Question 4: Are there additional concepts needed to identify information that is unsuitable for requirement by the Board in notes to financial statements even though that information would be consistent with the purpose of the notes?

As stated above in our response to Question 3, we believe all aspects that require speculation on behalf of the reporting entity should be removed.

Question 5: Do the decision questions in Appendix A identify the information appropriate for the Board to consider requiring for disclosure when setting standards related to line items and other past events and current circumstances and conditions that can assist resource providers in their decision making?

We believe the following information in the decision questions should be reconsidered:

Question L2

L2(c) and L2(d) – Disclosure of the potential effects of future nonperformance should be linked to the reporting entity's assumptions surrounding the likelihood of nonperformance. Risk of counterparty nonperformance is captured in reserve calculations, and those disclosures are covered by L2(b). We believe the reporting entity should provide disclosure regarding assumptions for material reserves, but disclosure on maximum potential effects should not be required if the reporting entity does not anticipate their occurrence is probable (or a comparable measure of likelihood).

Questions L5 and L6

This forward-looking information should be subject to Safe-Harbor provisions and belongs outside the notes to the financial statements.

Question L7

Accurately separating routine and non-routine changes, as well as changes caused by changes in accounting, changes in economic conditions, changes in the composition of the entity, and changes in contractual obligations or rights may not be feasible for reporting entities. In addition, we question how the Board would define the inherently nebulous concepts of “routine” and “nonroutine” changes in a way that could avoid inconsistent application among reporting entities.

Question L8

This question indicates that fair values should be provided for all nonfinancial assets. We do not believe that providing fair values, especially for those assets that are held and used, provides any meaningful information to the users. We question the need for this type of disclosure. In the case of fixed assets, it would involve keeping an additional set of books to track the fair value of the property versus book value. The preparer’s intent to sell an asset needs to be considered and should be incorporated in the decision process for this type of disclosure. We believe the fair value of a fixed asset should only be noted in the event of impairment or held-for-sale situations.

Question L10

We believe that if a reporting entity is using an acceptable accounting policy or method under U.S. GAAP where there are acceptable alternative policies or methods, the only disclosure requirement should be to describe the accounting policy or method applied (as noted in L10(a)). We do not believe reporting entities should be required to track hypothetical accounting under an accounting option not chosen, if the reporting entity is already using an accounting method that is acceptable under U.S. GAAP. Accordingly, we believe the consideration in L10(b) is unnecessary if the reporting entity is following U.S. GAAP.

Question L12

We agree with the information to be provided in (a) and (b), but the information in (c) should not be included in disclosures. How would the Board define “readily available”? Providing information in (c) could effectively result in an entity being forced to adopt a new accounting standard prior to its effective date, which we believe is fundamentally wrong.

Consider the following scenario:

- Adoption of a new standard will have a perceived negative effect on reporting entities.
- The reporting entity determines the impact is readily available and therefore is required to disclose the pro forma effect on current operations.
- A competitor takes the position that the information is not readily available and does not disclose the negative pro forma effect.

We believe this example illustrates how disclosing pro forma effects prior to effective dates could be disadvantageous to a preparer that is required to disclose this information under the provision in L12(c). We believe the effective date of a new accounting pronouncement levels the playing field, and early-adoption provisions exist for preparers who have both the *ability* and *desire* to implement a new standard prior to its effective date.

Question L15

Our comment is similar to our position on Question L10. We do not believe reporting entities should be required to track hypothetical accounting under an accounting option not chosen, if the reporting entity is already using an accounting method that is acceptable under U.S. GAAP. We believe that the disclosure of the method used in L10(a) is all that should be required. As such, we do not believe L15(a) and L15(b) are necessary.

Question 6: Does the discussion in paragraphs D43-D50 identify the information appropriate for the Board to consider when setting standards related to information about the reporting entity?

Information in D44 and D45 is better suited for disclosure outside of the notes to the financial statements.

Question 7: Will the concepts related to future-oriented information (paragraphs D22-D31) result in disclosures that are appropriate for the notes? If not, what types of information should be included in or excluded from consideration for disclosure in the notes?

We agree with the concepts related to future-oriented information as set forth in paragraphs D22-D31 and support emphasis of the constraints to disclosure of future-oriented information noted therein. We, however, are concerned by some of the types of potential disclosures later mentioned in the Exposure Draft related to future-oriented information that we feel is not appropriate for disclosure in the notes to financial statements. See our response to Question 8 for examples of these potential disclosures.

Question 8: Do the concepts in this chapter appropriately distinguish the types of information that are appropriate for the notes from the analysis management provides in other communications?

No. We believe the information included in the notes to financial statements should be limited to historical financial information, descriptions of management's judgments and estimates and relevant accounting policies. Some of the decision questions and potential disclosures in this exposure draft extend beyond this realm.

We believe the following information is better suited for disclosure outside of the notes to financial statements:

- D38(d)
- D44
- D45
- D57 – (b) thru (f)
- Questions L5, L6, O1

Question 9: Are the concepts related to disclosure requirements for interim periods (paragraphs D60-D71) appropriate? If not, are there concepts that should be added or removed?

The concepts in D60 – D71 appear appropriate. We support incorporation of the guidance in SEC Regulation S-X, Rule 10-01 into the Accounting Standards Codification (as noted in paragraph BC23 in the Board’s Basis for Conclusions).

Conclusion

Lilly once again supports the Board’s objective to improve the effectiveness of disclosures in notes to financial statements, and we believe the development of a disclosure framework is the necessary first step in the process. However, as indicated in our responses above, we believe the information content of the notes to financial statements must be properly bound to exclude forward-looking information and “what if” analysis on management’s judgments and estimates.

We appreciate the opportunity to express our view and concerns regarding the discussion paper. If you have any questions regarding our response, or would like to discuss our comments further, please call me at (317) 651-2310.

Sincerely,

ELI LILLY AND COMPANY

/s/Donald A. Zakrowski

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