



Eli Lilly and Company

Lilly Corporate Center
Indianapolis, Indiana 46285
U.S.A.
+1.317.276.2000
www.lilly.com

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Technical Director
File Reference No. 2015-280
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

Dear Director,

Eli Lilly and Company (“Lilly”) appreciates the opportunity to comment on the Financial Accounting Standards Board’s (the “Board”) Proposed Accounting Standards Update, “*Investments—Equity Method and Joint Ventures (Topic 323) – Simplifying the Equity Method of Accounting*” (the “Exposure Draft”). Lilly is a multinational pharmaceutical and animal health company with legal entities in over 50 jurisdictions.

Lilly supports the Board’s objective to simplify the accounting for equity method investments. We believe eliminating the current requirement to identify, separately account for and disclose the difference between an entity’s cost basis of an investment and the amount of the underlying equity in net assets of the investee would reduce the cost and resources required to determine the acquisition date fair values of the investee’s identifiable assets and liabilities. Because the investees are often private companies for which the entity does not control, gaining access to the financial information required to determine the acquisition date fair values is often challenging.

Lilly also supports the proposed amendment to eliminate the requirement to retroactively apply the equity method of accounting to investments that subsequently qualify for the use of the equity method because of an increase in the level of ownership. We believe the current requirement to apply retroactive application of the equity method can be costly and operationally challenging because entities likely do not have the investee’s financial information readily available to make such adjustments. We also believe that the proposed amendment to eliminate the retroactive application of the equity method improves consistency with International Financial Reporting Standards (“IFRS”).

The language in paragraph 323-10-35-33 of the Exposure Draft is currently unclear about whether the proposed change to modified prospective application of equity method accounting applies to both the increase in the level of ownership interests of an investee, as well as all other ways described in paragraph 323-10-15-6 that could result in an investor concluding that it has gained significant influence over an investee. Pursuant to paragraph 323-10-15-6, an investor’s subsequent ability to exercise significant influence over an investee may be obtained in several ways, not only by increased ownership levels, but also by (a) increased representation on the investee’s board of directors, (b) increased participation in policy-making decisions, (c) increased material intra-entity transactions, (d) increased interchange of managerial personnel, (e) increased technological dependence, and (f) changes in the extent of ownership by an investor in relation to the concentration of other shareholdings.

We believe the Exposure Draft should clarify the guidance in paragraph 323-10-35-33 to include investments that subsequently qualify for the use of the equity method as a result of an entity gaining significant influence over operating and financial policies of the investee regardless of the manner in which the significant influence was obtained.

The following are responses to selected questions in the Exposure Draft:

Question 1: Should accounting for the basis difference of equity method investments as if the investment were a consolidated subsidiary be eliminated? Why or why not? Would amortization of the entire basis difference through equity method earnings be preferable? If so, what would be the suggested amortization period?

Yes. We believe that the accounting for the entire basis difference of equity method investments as if the investment were a consolidated subsidiary be eliminated as the current requirement is costly and can be operationally challenging to obtain the necessary financial information to accurately determine the acquisition date fair values of the investee to calculate such basis difference. We do not believe the basis difference should be amortized through equity method earnings and we support the initial recognition of equity method investments at cost.

Question 3: Should an entity be required to apply the proposed amendments related to accounting for the basis difference on a modified prospective basis as of the effective date? Why or why not?

Yes. We support application using the modified prospective basis as it is the simplest method of application and would meet the objective of the Board's Simplification Initiative. We also believe requiring this approach promotes consistency in accounting for these types of investments.

Question 4: Should an entity no longer be required to retroactively adopt the equity method of accounting if an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest? Why or why not?

Yes. We believe that an entity should no longer be required to retroactively adopt the equity method of accounting for any reporting periods in which an investor did not have significant influence over the investee. Retroactive application of the equity method can be costly and operationally challenging because entities likely do not have the investee's financial information readily available to make such retroactive adjustments.

In addition, we believe the Exposure Draft should modify the guidance in paragraphs 323-10-35-33 and 323-10-65-2 to include investments that subsequently qualify for the use of the equity method as a result of an investor gaining significant influence over the investee pursuant to paragraph 323-10-15-6. We propose the following clarifying language, in addition to that proposed in the Exposure Draft:

323-10-35-33 Paragraph 323-10-15-12 explains that an investment in common stock of an investee that was previously accounted for on other than the equity method may become qualified for the use of the equity method by an increase in the level of ownership described in paragraph 323-10-15-3 (that is, acquisition of additional voting stock by the investor, acquisition or retirement of voting stock by the investee, or other transactions), as well as by gaining the ability to exercise significant influence over operating and financial policies of an investee as described in paragraph 323-10-15-6. If an investment qualifies for the use of the equity method (that is, falls within the scope of this Subtopic), the investor shall add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes eligible for equity method accounting. The investment account shall not be adjusted retroactively under the conditions in this paragraph. ~~The investment, results of operations (current and prior periods presented), and retained earnings of the investor shall be adjusted retroactively on a step-~~

~~by step basis as if the equity method had been in effect during all previous periods in which the investment was held. The amount of interest cost capitalized through application of Subtopic 835-20 shall not be changed if restating financial statements of prior periods.~~

323-10-65-2

Increase in Level of Ownership or Degree of Influence

- d. An entity shall apply the pending content that links this paragraph prospectively to ownership level increases occurring after the effective date to investments in common stock of an investee that subsequently qualify for use of the equity method of accounting as a result of gaining significant influence over the investee.
- e. No disclosures shall be required after the entity's adoption date.

Conclusion

Lilly once again supports the Board's objective to simplify the accounting for equity method investments. However, as indicated in our responses above, we believe that certain language in the Exposure Draft should be modified to clarify that an investment may also subsequently qualify for prospective application of the equity method of accounting as a result of gaining significant influence over an investee through other ways in addition to increased ownership levels.

We appreciate the opportunity to express our view and comments regarding the Exposure Draft. 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