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June 29, 2016

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

Re: File Reference No. 2016-240, Technical Corrections and Improvements to Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*

Dear Director:

Eli Lilly and Company (“Lilly”) appreciates the opportunity to comment on the Financial Accounting Standards Board’s Proposed Accounting Standards Update, “Technical Corrections and Improvements to Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*” (the “proposed ASU”). Lilly is a multinational pharmaceutical and animal health company with more than 200 legal entities in over 80 jurisdictions.

Following are responses to selected questions in the proposed ASU:

Question 5: The proposed amendments would provide an additional practical expedient to the disclosure of remaining performance obligations in specific situations in which an entity need not estimate variable consideration to recognize revenue. Would the addition of this practical expedient diminish the usefulness of the disclosure information? If yes, please explain why. Would the proposed amendments reduce the cost and complexity of applying Topic 606? If not, why? Are there other situations in which an entity would be required to estimate variable consideration for disclosure but not for purposes of recognizing revenue?

We fully support the addition of the practical expedient in paragraph 606-10-50-14A. We believe this proposed amendment will reduce the cost and complexity of applying Topic 606 for the same reasons that gave rise to original inclusion of the sales/usage-based royalty exception in paragraphs 606-10-55-65 through 55-65B. The Board cites those reasons in paragraph BC415 of ASU 2014-09,

“The Boards decided that for a license of intellectual property for which the consideration is based on the customer’s subsequent sales or usage, an entity should not recognize any revenue for the variable amounts until the uncertainty is resolved (that is, when a customer’s subsequent sales or usage occurs). The Boards had proposed a similar requirement in the 2011 Exposure Draft because both users and preparers of financial statements indicated that it would not be useful for an entity to recognize a minimum

amount of revenue for those contracts. This is because that approach inevitably would have required the entity to report, throughout the life of the contract, significant adjustments to the amount of revenue recognized at inception of the contract as a result of changes in circumstances, even though those changes in circumstances are not related to the entity's performance. The Boards observed that this would not result in relevant information, particularly in contracts in which the sales-based or usage-based royalty is paid over a long period of time."

We believe the costs and subjectivity involved in preparing the disclosures in paragraph 606-10-50-13 for arrangements that meet the conditions in 606-10-50-14A would outweigh the potential benefits of the disclosures. Efforts to forecast sales that are not related to the entity's performance will require a high degree of subjective judgment and we question the relevance and practicality of disclosing this subjective information. Accordingly, we support the Board's addition of the practical expedient in paragraph 606-10-50-14A.

Question 6: The proposed amendments to the disclosure requirement in paragraph 606-10-50-15 are intended to expand the information disclosed when an entity applies one or more of the practical expedients in paragraphs 606-10-50-14 through 50-14A. Do you agree with the proposed amendments? If not, what information should an entity be required to disclose about its remaining performance obligations when one or more of the practical expedients are applied?

We agree with the proposed amendments in paragraph 606-10-50-15.

Question 7: While not proposed in this Exposure Draft, should an entity that applies one or more of the practical expedients to the disclosure of remaining performance obligations be required to disclose the amounts of variable and fixed consideration recognized in current-period revenue for contracts to which the entity applies one or more of the practical expedients? What would be the costs associated with including that disclosure? Would that disclosure provide useful information? Also, should an entity that applies one or more of the practical expedients be required to disclose information (for example, remaining contract duration) about each major customer as that term is used in Topic 280, Segment Reporting (that is, customers with revenue equal to or greater than 10 percent of total revenue)?

We believe disclosure of the amounts of variable and fixed consideration recognized in current-period revenue for contracts in which the entity applies one or more of the practical expedients is unnecessary and potentially misleading when coupled with disclosure of contract durations.

Existing requirements already require entities to disclose material revenue arrangements. Information in the proposed disclosure would be redundant with the robust existing disclosure requirements.

Disclosures of current revenue for these contracts, coupled with the corresponding contract duration, would give users an incomplete set of information: the current magnitude of revenue

and duration of the contract, but not the future magnitude/pattern of revenue expected to be recognized over the life of the contract. Absent disclosure of the information in paragraph 606-10-50-13 about the entity's expectations of the amount and timing of revenue to be recognized (which we agree should not be disclosed when applying the practical expedient of 50-14A: See our response to Question 5), we are concerned that users might be tempted to extrapolate current revenue amounts over the life of the contract. The results of this technique may not necessarily match the entity's expected pattern of recognition; therefore users could potentially be misled.

We do not support including any of the proposed additional disclosures contemplated in Question 7.

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