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

Re: File Reference No. 2016-270, *Income Taxes (Topic 740): Disclosure Framework - Changes to the Disclosure Requirements for Income Taxes*

Dear Director:

Eli Lilly and Company (“Lilly”) appreciates the opportunity to comment on the Financial Accounting Standards Board’s Proposed Accounting Standards Update, *Income Taxes (Topic 740): Disclosure Framework - Changes to the Disclosure Requirements for Income Taxes* (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 1: Would the proposed amendments result in more effective, decision-useful information about income taxes? Please explain why or why not. Would the proposed amendments result in the elimination of decision-useful information about income taxes? If yes, please explain why.

While some of the proposed amendments may result in more effective, decision-useful information about income taxes, we believe that the following proposals would not be useful to the financial statement users:

- The requirement for an entity to disclose the description of a legally enforceable agreement with a government would not result in more effective, decision-useful information about income taxes.
 - ASC 740 already provides adequate disclosure for the recognition, measurement and disclosure for income taxes. The disclosures required by the proposed ASU (if not otherwise required under ASC 740) would not provide additional useful information.
 - Specifically, ASC 740 requires companies to provide a tax rate reconciliation that reconciles income tax expense attributable to continuing operations to the statutory income tax rate applied to pretax income from continuing operations. Government assistance that

materially alters a company's income taxes is subject to this requirement and would be disclosed under the current ASC 740.

- The requirements are redundant to the specific SEC disclosure requirements under SAB Topic 11.c (codified into ASC 740-10-S99) for tax holidays which requires a filer to disclose both the aggregate dollar value, the per share effects of the tax holiday, as well as the factual circumstances of the arrangement including the date on which the special tax status will be terminated.
 - If the FASB finalizes the proposed ASU as it currently stands, additional clarification would be needed to specifically exclude agreements with tax jurisdictions that confirm the expected tax treatment under published law, such as Advance Pricing Agreements ("APA") and Private Letter Rulings ("PLR").
- While we generally agree with the amendments to the rate reconciliation requirement, we believe it would be more decision-useful to discuss year-to-year changes in the aggregate, rather than separately explaining each reconciling item, which would help the user better understand the overall changes in the effective tax rate. By explaining changes for each line item, the disclosure could become redundant as changes would likely be explained in other disclosures required under ASC 740. For example, an individual reconciling item may change due to the release of a valuation allowance. The amount and explanation of the change in valuation allowance would be explained elsewhere in the disclosures, making the proposed requirement potentially redundant with other disclosure requirements.
- We agree that the proposed amendments should reduce diversity in practice for the disclosure of carryforwards; however, we believe that only the tax-effected amounts should be disclosed. Including the gross carryforwards (not tax-effected) could create confusion. Specifically, credits can only be tracked on a tax-effected basis, so the gross amount does not exist. Furthermore, state carryforwards are not easily understood on a gross basis as some states require tracking on a pre-apportionment basis while others require it on a post-apportionment basis. As a result, we believe it would be more decision-useful to the users to provide the carryforwards only on a tax-effected basis.
- The proposed amendments also include a disclosure of carryforward expiration for each of the first five years after the reporting date. This requirement may result in excessive amount of details which individually provides little value. We believe it would be more decision-useful to provide a schedule of expirations in groups of years. For example, the entity would disclose carryforwards that would expire in 1-5 years, 6-10 years, and after 10 years. This disclosure would give the users longer-term information while requiring minimal additional cost to the entity.
- With regard to the reconciliation of the total amounts of unrecognized tax benefits, the proposed ASU requiring disclosure of the settlements using existing deferred tax assets separate from those that have been or will be settled in cash would not result in more decision-useful information. When a deferred tax asset is used to offset a tax liability upon an audit settlement, it is not always specifically associated with a corresponding tax liability. Rather, it will often be applied to the total tax liability. For example, when a net operating loss ("NOL") is utilized upon conclusion of an audit, it does not offset a

specifically identified tax liability; rather it is applied to the entire tax liability. In order to meet the requirements under the proposed ASU, the entity would be required to arbitrarily allocate the Deferred Tax Asset (“DTA”) utilization against the unrecognized tax benefits being released as a result of the settlement. We believe this information will not provide more effective, decision-useful information to the users.

- We believe that the proposed requirements to disaggregate income taxes paid between domestic and foreign and to disclose the amount of income taxes paid to any country that is significant to total income taxes paid do not provide decision-useful information and could potentially be misleading. Deadlines for paying income taxes vary by jurisdiction across the world which could result in the disclosure of payments related to varying fiscal years. Also, domestic payments could be offset by foreign taxes accrued, but not yet paid, which could result in mismatched payments when comparing domestic against foreign taxes paid in a given year.
- With regard to the proposed requirement to disclose the line items in the statement of financial position in which the unrecognized tax benefits are presented, we strongly believe that the proposed requirement does not provide effective, decision-useful information. The example provided by the FASB in the proposed ASU shows “Unrecognized tax benefits not presented on the statement of financial position”, which would include any DTA’s netted against the liability for uncertain tax positions, as required under current FASB Accounting Standards Codification and finalized ASUs. The resulting amount presented under this description would be an aggregated amount that would give the financial statement user no additional useful information.

Question 2: Are the proposed disclosure requirements operable and auditable? If not, which aspects pose operability or auditability issues and why?

Some of the proposed disclosure requirements are not operable or auditable. The proposed requirements that pose operability and auditability issues are:

- The requirement for an entity to disclose the description of a legally enforceable agreement with a government may not be operable as certain agreements have confidentiality restrictions. Requiring disclosure of such agreements would result in violation of the confidentiality clause.
- The requirement for an entity to disclose the amount by which a legally enforceable agreement with a government reduces its tax burden would require companies to maintain a set of “proforma books” as if no government assistance were granted. The additional work and required assumptions would create practical challenges and make the provision difficult to operate and audit by creating a false comparison against a theoretical system of taxation. For example:
 - Companies often need to meet certain requirements to obtain government assistance, including, but not limited to, deploying certain levels of capital investment and increasing/maintaining a certain size of workforce in a jurisdiction. Quantifying the value of government assistance without considering the potential expenditures would be misleading, while it would be very difficult

to appraise the value with the numerous moving parts. In addition, without the incentives, a taxpayer may not make the investment in the jurisdiction.

- Tax jurisdictions can choose different strategies. Some impose low statutory tax rates. Others impose high rates while granting tax breaks, which could be in the form of government assistance. The avenues available to governments to collect tax are dynamic, making it very difficult to predict the overall impact of government assistance since it is not an isolated element.
- We believe the proposed requirement to describe an enacted change in tax law that is probable to have an effect on the reporting entity in a future period would require companies to include forward-looking statements in audited footnotes. Companies are currently required to disclose in the Management Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) any changes or events, including changes in tax law, which the entity expects will have a material impact on the entity’s financial statements based on the facts and circumstances in the current period. Because this requirement involves forward-looking statements, we strongly believe the disclosure is more appropriately included in the MD&A rather than the financial statement footnotes.
- We also believe the proposed requirement to describe an enacted change in tax law that is probable to have an effect on the reporting entity in a future period is inoperable and not auditable. Under the proposed requirement, an entity could assess a tax law change to be immaterial in the period in which it is enacted. Because the proposed requirement is vague, it is not clear if in a later period the item becomes material, the entity would be required to disclose the previously enacted tax law change.
- With regard to the reconciliation of the total amounts of unrecognized tax benefits, the proposed ASU requiring disclosure of the settlements using existing deferred tax assets separate from those that have been or will be settled in cash could require an arbitrary allocation of DTA’s, which would not be operable or auditable. See previous discussion and example in the response to Question 1.

Question 3: Would any of the proposed disclosures impose significant incremental costs? If so, please describe the nature and extent of the additional costs.

Generally the information required by the proposed ASU will have to be collected from both U.S. and foreign affiliates as certain data is not centrally maintained. Therefore, additional systems, processes, and personnel would be required to collect and summarize the information for disclosure.

Specifically, in order to meet the requirement for an entity to disclose the description of a legally enforceable agreement with a government, we would have to build and operate a worldwide process/system to collect and track information from a large amount of subsidiaries located in many different countries. These additional processes and systems would be time consuming and impose incremental costs, including third party consultants. Furthermore, companies that do not have material agreements to disclose will be required to incur the additional costs to collect the data in order to prove none are material.

Question 4: The Board is proposing that reporting entities disclose income taxes paid for any foreign country that is significant to total income taxes paid. The Board also considered requiring disclosure by significant country of income (or loss) from continuing operations before income tax expense (or benefit) and income tax expense (or benefit) from continuing operations but decided that this disclosure would be costly and potentially not beneficial in assessing prospects for cash flows related to income taxes (see paragraph BC22 of this proposed Update). Are there other costs or benefits that the Board should consider regarding these potential disclosures? Are there other country-level disclosures that the Board should consider that may be more cost beneficial?

We agree with the proposed ASU with respect to excluding additional disclosures for significant country of income as it would provide minimal benefit to the user and would be costly to the reporting entity.

Question 5: The Board considered several disclosures on indefinitely reinvested foreign earnings (see paragraphs BC27–BC40 of this proposed Update). Is there other information that the Board should consider regarding these potential disclosures? Are there other disclosures about indefinitely reinvested foreign earnings that would be more cost beneficial?

We do not believe there is any additional information the Board should consider regarding the potential disclosure of indefinitely reinvested foreign earnings.

Question 6: The proposed amendments would apply to all entities, except for the requirements in paragraphs 740-10-50-6A through 50-6B, 740-10-50-12, and 740-10-50-15A for which entities other than public business entities would be exempt. Do you agree with the exemption for entities other than public business entities? If not, please describe why and which disclosures should be required for entities other than public business entities.

We agree with the exemption for entities other than public business entities.

Question 7: Are there any other disclosures that should be required by Topic 740 on the basis of the proposed Concepts Statement or for other reasons? Please explain why.

We do not believe there are any other disclosures that should be required.

Question 8: Are there any other disclosure requirements retained following the review of Topic 740 that should be removed on the basis of the proposed Concepts Statement or for other reasons? Please explain why.

We believe that the existing disclosures required under ASC 740 provide effective and decision-useful information. While we support 1) the emphasis on material information and 2) the elimination of the requirement for the amount of uncertain taxes reasonably possible to

change in the next 12 months, we do not believe other existing disclosure requirements should be modified.

Question 9: Should the proposed disclosures be required only for the reporting year in which the requirements are effective and thereafter or should prior periods be restated in the year in which the requirements are effective? Please explain why.

We believe that the proposed disclosures should be required only for the reporting year in which the requirements are effective and thereafter. Retrospective application would be costly and has a high degree of risk associated with the required manual processes, which would require additional time. As a result, we do not believe the benefits of retrospective application would justify the costs.

Question 10: How much time would be needed to implement the proposed amendments? Should the amount of time needed to implement the proposed amendments by entities other than public business entities be different from the amount of time needed by public business entities? Should early adoption be permitted? If the answer is "yes" to either question, please explain why.

We believe that the proposed ASU would require considerable time to implement, given the large amount of additional information required and additional systems that could be necessary. As a result, the proposed ASU should be effective no earlier than two years after finalization of the disclosure changes. Early adoption should be permitted to allow for the additional information to be available as soon as the reporting company is capable of providing it to the financial statement users.

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