

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

Letter of Comment No:

File Reference: 1099-001

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Phone 317 276 2000

July 30, 2004

Ms. Suzanne Q. Bielstein Director of Major Projects and Technical Activities Financial Accounting Standards Board 401 Merritt 7, P.O. Box 5116 Norwalk, CT 06856-5116

Re: File Reference 1099-001

Dear Ms. Bielstein:

Eli Lilly and Company appreciates the opportunity to comment on the FASB's Proposed Interpretation, Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143 (the "ED").

We support the Board's continued effort to achieve consistency in accounting practices related to the timing of liability recognition for asset retirement obligations. We believe the continued clarification and interpretation of accounting standards will result in more comparable financial statements of reporting entities. However, we do not support the Board's decision to alter the definition of "probable" in FASB Statement No. 5, Accounting for Contingencies ("SFAS No. 5"), only as it applies to SFAS No. 143. We believe a legal obligation to perform asset retirement activities exists upon removal or renovation of an asset, not upon the acquisition of an asset. Additionally, we believe many long-lived assets will have indeterminate useful lives because of maintenance and replacement activities, therefore minimizing the impact of the ED on financial statements. Further, we believe the current disclosure requirements for contingencies stipulated in SFAS No. 5 provide sufficient information about future cash outflows related to material asset retirement obligations.

We have summarized the items we believe to be the most significant in the paragraphs below. In addition to these comments, we have attached a document to respond directly to the issues raised by the Board in the ED.

SFAS No. 5 Definition of "Probable"

We believe the definition of "probable" that is provided in SFAS No. 5 should not be altered when evaluating the fair value of asset retirement obligations within the scope of SFAS No. 143.

Paragraph B13 of the ED states "the objective of recognizing the fair value of an asset retirement obligation will result in recognition of some asset retirement obligations for which the likelihood of future settlement, although more than zero, is less than probable from a Statement 5 prospective". We believe the accrual of a loss contingency that is less than probable of occurring would create an exception to the long-standing guidance provided for contingencies in SFAS No. 5. The basis for that guidance is to accrue for loss contingencies when they are reasonably estimable and it is probable the future event will confirm the loss or the occurrence of the liability. Using the example of asbestos material present in buildings, we could not reasonably estimate the cost of removing asbestos in a building that may not be demolished, renovated or sold for many years, if ever. In addition, we could not predict when, if ever, an event might occur to confirm the settlement of a liability. We do not believe a liability should be recognized for conditional asset retirement obligations until it is probable a settlement will occur.

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Timing of Legal Obligation and Indeterminate Useful Lives

We believe all of the examples included in the ED represent conditional asset retirement obligations. In all instances, a legal obligation to eliminate hazardous materials exists only upon the occurrence of a future event (e.g., demolishment, major renovation) not upon the acquisition of the asset. Maintenance and replacement activities could continue (for all examples) for many years thus avoiding any legal obligation to perform cleanup or removal of hazardous materials. An entity does have the discretion to avoid a future sacrifice if they continue to maintain a facility. Once a decision is made by management to renovate or demolish a facility, an obligation to remove hazardous materials exists. Because of the ability to perform maintenance and replacement activities therefore creating an indeterminate useful life and possibly avoiding settlement altogether, a liability cannot be estimated reasonably and does not exist at the acquisition date.

Unless an entity has near-term plans to renovate or demolish a facility where they are legally obligated to perform asset retirement activities, we believe this ED would not have a material impact on an entity's financial statements. Paragraph 59 of SFAS No. 5 states "the requirement that the loss be reasonably estimable is intended to prevent accrual in the financial statements of amounts so uncertain as to impair the integrity of the those statements". We would argue that loss contingencies of this nature include too many uncertainties surrounding the timing and method of settlement to accurately measure any potential liability.

Disclosures of Loss Contingencies

As an alternative to accruing for loss contingencies that are less than probable of occurring, we would suggest that entities disclose information about the general nature of any asset retirement obligations. In addition, disclosures could include an estimate, if available, of the possible loss or range of loss and the potential impact on future cash flows.

We appreciate the opportunity to express our views and concerns regarding the ED. If you have any questions regarding our response or would like to discuss our comments further, please feel free to call at (317) 276-2024.

Sincerely,

ELI LILLY AND COMPANY

S/Arnold C. Hanish Executive Director, Finance, and Chief Accounting Officer

Lilly's Responses to Issues identified by the Board

Issue 1: The Board concluded that the uncertainty surrounding the timing and method of settlement should not affect whether the fair value of a liability for a conditional asset retirement obligation would be recognized but rather, should be factored into the measurement of the liability. Do you agree with the Board's conclusion? If not, please provide your alternative view and basis for it.

We disagree with the Board's conclusion. First, we believe asset retirement obligations are contingent obligations, not present liabilities as defined by FASB Concepts Statement No. 6, Elements of Financial Statements ("FASB Concepts No. 6"). Asset retirement obligations should be treated as loss contingencies in accordance with SFAS No. 5 based on the probability of the contingent event taking place.

Per FASB Concepts No. 6, "liabilities are probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events." Asset retirement obligations should not be characterized as a present liability under FASB Concepts No. 6 because they do not meet the three general characteristics of a liability. They do not embody a present duty or responsibility to one or more other entities and settlement by probable future transfer or use of assets at a specified or determinable date, on occurrence of a specified event, or on demand is not probable. They do not obligate the entity because the entity has the discretion to avoid a future sacrifice by continuing to maintain facilities subject to potential asset retirement activities. In addition, the transaction or event obligating the entity has not already happened. Legally, no obligation exists until an asset is renovated or demolished in most instances. The existence of a law does not by itself create the liability.

Issue 2: The Board concluded that all retirement obligations within the scope of Statement 143 that meet the definition of a liability in Concepts Statement 6 should be recognized as liabilities. Concepts Statement 6 states that a liability has three essential characteristics. The second characteristic of a liability is that the duty or responsibility obligates a particular entity, leaving it little or no discretion to avoid the future sacrifice. The Board decided that the ability to indefinitely defer settlement of an asset retirement obligation or the ability to sell the asset does not provide the entity discretion to avoid the future sacrifice, nor does it relieve the entity of the obligation. Are there instances where a law or regulation obligates an entity to perform retirement activities but allows the entity to permanently avoid settling the obligation? If so, please provide specific examples.

As indicated in the body of the letter, we believe all of the examples included in the ED represent conditional asset retirement obligations with indeterminate settlement dates. Maintenance and replacement activities could continue (for all examples) for many years thus avoiding any legal obligation to perform cleanup or removal of hazardous materials. An entity does have the discretion to avoid a future sacrifice if they continue to maintain a facility.