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Date: May 23, 2006

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



LETTER OF COMMENT NO. 47

Re: File Reference 1025-300

Dear Director:

Eli Lilly and Company appreciates the opportunity to comment on the Financial Accounting Standards Board's (FASB's) Exposure Draft, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)* (hereafter referred to collectively as the "Exposure Draft"). As a large, multinational company that creates and delivers innovative medicines that enable people to live longer, healthier, more active lives, Eli Lilly and Company sponsors many pension and other postretirement benefit plans.

We support the FASB's efforts to provide more meaningful financial reporting to the readers of financial statements. We generally agree with the proposed accounting requirements described in the Exposure Draft to provide further transparency of the financial statements with the exception of the following areas of concern:

Measurement Date

While we acknowledge that conceptually it is desirable to complete the actuarial valuation as of the financial statement date, we believe that the current accounting rules of allowing up to three months prior to the financial statement date to value the obligations, as long as the measurement date is consistently applied, is an appropriate methodology for measuring the pension and postretirement obligations. The pension and postretirement obligations are estimates based upon numerous assumptions and factors, and as a result, the true obligations are not known for several years from the measurement date. By requiring precise data as of the financial statement date be used for the discount rate and measurement date, we believe the Board is implying a level of precision in the measurement of the liability that does not really exist.

In addition, we believe there are several practical concerns to requiring the strict use of this measurement date requirement:

- *Availability of investment data:* The actuarial valuation calculation is a time consuming and complex process that relies upon a significant amount of investment data that is not always readily available. For example, certain investment valuation data is difficult, and sometimes impossible, to collect on a timely basis, such as investments not traded in the public markets or investments in countries outside the U.S. We believe that the practical considerations to obtaining this data outweigh the perceived benefits of obtaining this data at the financial statement date.
- *Timing of actuarial valuations:* A strict interpretation of the financial statement date as the measurement date will possibly further delay the actuarial valuation timeliness due to limited actuarial resources to complete the increased number of actuarial valuations in a limited time period. This is especially true for multinational companies with many pension and other postretirement plans outside of the U.S. As the timing requirements for reporting financial information are continually being reduced we believe that it is inconsistent to require such specificity in the measurement date that could potentially delay the availability of financial information.

While we prefer a measurement date within three months of the financial statement date be maintained, if the FASB continues with this intention, we propose that the FASB allow a certain level of practicality in the timing of the actuarial valuation to mitigate these issues. We believe that it should be acceptable to prepare much of the information as of an earlier date and project forward to account for events subsequent to the valuation. For example, we believe it should be acceptable to complete the actuarial valuation at an earlier date (no earlier than three months prior to year-end) and update the amounts through year-end

for significant activity (such as benefits paid, contributions made and investment results), thereby achieving substantially the same result as a financial statement date actuarial valuation. This approach is consistent with the application of principles-based accounting standards.

We believe that this approach should be acceptable under our interpretation of the Exposure Draft; however, we are concerned audit firms may adhere to a strict interpretation of this measurement date proposal. This concern is highlighted by the recent actions of audit firms with respect to the grant date of stock options, which forced the FASB to issue FSP 123(R)-2, which was nothing more than a practical exception based upon a strict interpretation by certain audit firms. Therefore, we suggest that the FASB specifically address this in the final standard and provide a practical example of an appropriate application. The determination of the pension and postretirement assets and obligations as of the date of the financial statements without the use of a reasonable approach is impractical. We believe this approach would still achieve the FASB's intent of having a measurement date that is equal to the balance sheet date, but would allow companies to use a practical implementation approach.

Income Statement Impact

We are concerned with the requirements to restate the income statement for any remaining transition obligations. We do not believe that restating the income statement for this item benefits the readers of the financial statements or assists in the comparability of the income statements. In fact, we believe that restatements would only cause more confusion. The public sensitivity to restatements, regardless of the reason, is very intense in today's environment. The requirement to restate may have unintentional consequences for companies and is inconsistent with the initial intention of Phase I which was communicated as having an impact to only the balance sheet. We do not believe that it is appropriate to potentially "penalize" companies by requiring them to restate the prior period financial statements for implementing an accounting standard. Therefore, we propose that the FASB reconsider the requirement to retrospectively adopt this standard as we believe that there are many complexities to retrospectively adopting and that there are likely to be unintended consequences. However, if the FASB does decide to require retrospective application of the standard, we urge the FASB to reconsider the requirement for any restatement of income, and we propose that any remaining transition obligation as of the effective date of Exposure Draft be treated as a cumulative effect adjustment in the year of adoption.

Accounting for Valuation Allowances

We are concerned that the initial accounting treatment for a valuation allowance is unclear in the Exposure Draft. Our interpretation of the Exposure Draft is that any valuation allowances that would be initially required by recording deferred tax assets would be recorded through other comprehensive income based upon FASB Statement No. 109 paragraph 36b (and would not be recorded through the income statement). We believe that this would be similar to the treatment of recording a valuation allowance for deferred tax assets associated with recording unrealized losses on available-for-sale securities as described in FASB Statement No. 115 Q&A #54-57. However, as the Exposure Draft does not specifically address this issue, we are concerned that this could result in differing interpretations of the appropriate accounting treatment. We suggest that the FASB address the appropriate accounting treatment of valuation allowances or specifically clarify the interaction between this standard and FASB Statement No. 109 in the final standard.

Effective Date

We believe that the effective dates included in the Exposure Draft, are achievable if the final standard is issued as proposed in the third quarter of 2006 with minimal changes from the Exposure Draft. However, if the timing of the final standard is delayed beyond the third quarter of 2006 or if there are significant changes in the final standard from the Exposure Draft, then it would be extremely difficult for calendar year ending companies to implement those changes in such a short period of time.

Although we agree conceptually with most of the proposals outlined in the Exposure Draft, we are very concerned with the initial direction of Phase II of the FASB's project for accounting reforms for pension and postretirement benefits. While we agree that including the net pension and postretirement obligations on the balance sheet will improve the transparency of financial reporting, we do not see anything in the current rules for expense recognition that is "broken" to the point that it warrants additional modification. While we acknowledge the FASB's desire to move to a fair value financial reporting model, we believe these steps need to be taken with the utmost caution. We struggle to understand how an investor will benefit from the reporting through operations of a decline in pension plan assets of 3 percent one quarter and an increase of 5 percent in the very next quarter. These assets and liabilities are long-term in nature and the current approach of accounting for these erratic short-term movements over a longer period is, in our opinion, more appropriate. We do not believe that the volatility resulting from a "mark-to-market" approach would be meaningful. If Phase II proceeds as contemplated by the FASB, we are concerned that pension

and retiree health plans will die a very quick death, as companies and investors will not tolerate the unpredictable volatility. We strongly request the FASB reconsider its initial direction of Phase II and contemplate our concerns as it proceeds.

We appreciate the opportunity to express our views and concerns 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) 276-2024.

Sincerely,

ELI LILLY AND COMPANY

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