

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



LETTER OF COMMENT NO. 3

Re: File Reference Proposed FSP FAS 132(R)-a

Dear Director:

Eli Lilly and Company appreciates the opportunity to comment on the Financial Accounting Standards Board's (FASB's) Proposed FSP related to the amendment of FASB Statement No. 132 (revised 2003), *Employer's Disclosures about Pensions and Other Postretirement Benefits* (hereafter referred to collectively as the "Proposed FSP"). 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, many of which are international plans.

We support the FASB's efforts to provide meaningful financial reporting to readers of financial statements. We acknowledge that the accounting for pension and other postretirement benefit plans (hereafter referred to collectively as "benefit plans") is complex and additional information on benefit plan assets may be useful to readers. When determining the appropriate disclosures for benefit plans, it is important to understand that benefit plan assets are unique in nature and are not managed as financial assets used for operational purposes (which are critical to short-term liquidity and financial flexibility of a company). Benefit plan assets are placed in a separate trust vehicle and managed in relation to the long-term liabilities they are specifically meant to fund. Thus, we believe disclosures of benefit plans need to be specifically tailored to the intent and use of the benefit plan's assets and liabilities. In addition, we believe that any additional disclosures should not exceed the cost of compliance. Also, while we understand that readers have indicated they would like more data about benefit plans, there is already a significant amount of data disclosed in a company's footnotes for benefit plan assets and liabilities. As an example, Lilly's retirement benefit plan footnote is three pages and provides significant information on the benefit plans. As such, we have rarely received any questions from analysts or other investors seeking more detailed breakdowns regarding our benefit plans.

We agree with the Proposed FSP to require additional asset disclosures using a principles-based approach that will be the responsibility of each individual company, in conjunction with their auditors, to provide the appropriate disclosures required based upon the unique benefit plan asset structures and materiality. However, we are providing our views to certain questions that were listed in the Proposed FSP and our overall concerns with certain of the proposed disclosures requirements.

Disclosure of Asset Categories:

We agree that the enhanced disclosures regarding the type of plan assets may be useful to readers to further understand the components of a benefit plan's asset portfolio and evaluate the overall risk of benefit plans to a company's financial position. These disclosures would provide readers additional detailed information using data that is typically available at year-end and would not require significant costs to analyze and provide as applicable.

However, we do have a concern regarding the requirement to segregate all derivative contracts by type and by receivable versus payable position. Specifically we are concerned about derivative instruments that are in place to mitigate risks of other benefit plan elements. We believe that this could be very misleading and clearly not representative of the risks managed within the plan. For example, a derivative foreign exchange contract may have been acquired to reduce or eliminate the existing currency risk from a security position within an international equity investment. Separating the derivative balances out from the positions they were intended to manage will mislead readers to perceive that there is more risk, when actually the derivative investment is reducing the risk of the related benefit plan investment. We recommend that these types of derivative contracts be included at fair value within the investment category that they are related to and, if material the narrative discussion will include appropriate descriptions of the use of these types of derivative investments.

Concentration of Risk Disclosure:

We agree that understanding significant concentration of risk within a benefit plan is important to readers in evaluating the overall risk of the benefit plan to a company's financial position. However, it is important to disclose the concentration of risk in a manner that is both meaningful to readers and consistent with the management of risk by the plan managers. The risk within the benefit plan portfolio is based upon the specific relation of benefit plan assets to the benefit plan liabilities. The benefit plan fiduciaries' are responsible to ensure that the risks and related returns are appropriate based upon the composition of the benefit plan assets and liabilities. The quantitative disclosures requirements as included in the Proposed FSP are not consistent with the overall risk management of a benefit plan. We suggest that the concentration of risk disclosure requirement be more qualitative in nature through a narrative discussion regarding the company's investment policies, specific risk management strategies and processes in managing the concentration of risk between the benefit plan assets and liabilities. In addition, the additional disclosures of detailed asset classes provide data for readers to determine overall concentration of risk across asset categories. Between the suggested narrative discussion and the additional asset class disclosures, we believe that these disclosures give readers the appropriate data to evaluate the benefit plan's risk to a company's financial position without providing detailed quantitative data.

Level 3 Reconciliation Disclosure:

We agree that providing a reconciliation detail disclosure for operational financial assets that are valued using level 3 criteria may be useful to readers as the fair value changes are recorded through the income statement either in the current year or in the near future. However, we do not believe that the reconciliation disclosure for benefit plan assets valued using level 3 criteria is relevant or decision-useful information as 1) it is not consistent with the nature and intent of benefit plan assets that are set aside specifically for the provision related to the long-term benefit plan obligations, 2) it is not consistent with the accounting of benefit plans (as changes in fair values go through the income statement over an extended period of time rather than immediately) and 3) it is a time consuming and costly process to separately disclose this data.

It is important to keep in mind that benefit plan assets are managed in relation to the long-term liabilities they are meant to fund, which in some cases could be 30-40 years in maturity. The disclosures for the benefit plan assets should be consistent with the long-term nature of these assets, and thus, should be focused on long-term returns and strategies for managing risk without over-emphasizing short-term volatility. We are concerned that specifically disclosing the activity of certain investments of the benefit plan asset portfolio may give a misleading impression to readers of the risk and significance of short-term volatility related to those certain assets to the overall company's financial results. In addition, the benefit plan asset year-end values will be clearly disclosed in the footnotes in accordance with the proposed requirements. This disclosure as well as long-term rate of return results and narrative discussions of the benefit plan asset strategies and risk concentration should provide the readers with the appropriate data to evaluate the benefit plan's asset performance and concentration of risk.

In addition, as the benefit plan assets fair value changes are recorded on the balance sheet through accumulated other comprehensive income and amortized in the income statement over a long-period of time (potentially 10-

20 years depending on the benefit plan participants), we do not believe that the reconciliation is a useful disclosure for readers to assess the benefit plan asset risks or consistent with the impact of the current year activity to the company's financial statements. It is important to keep in mind that within current disclosure requirements, the benefit plan asset fair value changes in the current year and the eventual impact of those changes are clearly disclosed to readers in aggregate (i.e. the rollforward of the benefit plan asset fair values, rollforward of the other comprehensive income balance by component and amortization estimated to be recorded in the subsequent year). We believe these disclosures are valuable and appropriate for readers to understand the changes to benefit plan assets, including the actual market return on assets and the amount of liquidity (i.e. benefits paid) that was needed and drawn from the assets in the current year. The current disclosures also appropriately include the changing value and costs impacting the liability. Together, these disclosures are a helpful representation of the sources and uses of the plan's funded status (i.e. assets less liabilities) and consistent with the intent and use of benefit plan assets and liabilities.

Also, many typical benefit plan assets include complex investment structures such as fund of funds and commingled funds. The data at the fund level by individual investment is not readily available at year-end since it must be accumulated by the investment manager for the numerous funds or investments that comprise the overall fund. We have discussed this concern with several of our investment managers for these types of complex alternative assets and they have indicated it could take several weeks after year-end to provide this level of detail to us. We anticipate that the process to aggregate this data for our plans worldwide will be a manual and time consuming process. We have nearly 20 benefit plans worldwide that have literally thousands of investments in various private and public companies through over 100 investment managers. We are concerned the timing of the availability of this data as of the financial statement date that will then need to be manually aggregated across all of our plans will require us to delay our internal reviews with senior management and our Audit Committee, disrupting an already tight schedule to meet year end reporting deadlines and accelerated filing dates.

Therefore, as we believe that the reconciliation detail of a subgroup of the benefit plan assets is not decision-useful data and that the overall potential benefits to the readers do not outweigh the potential costs and time of providing this disclosure, we recommend that the level 3 reconciliation disclosure requirement be removed from the final standard.

We appreciate the opportunity to express our views and concerns regarding the Proposed FSP. 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