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March 12, 2012

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

Re: **Proposed Accounting Standards Update, “Principal versus Agent Analysis”
File Reference No. 2011-220**

Dear Technical Director:

Eli Lilly and Company (“Lilly”) appreciates the opportunity to comment on the FASB’s (the Board) Proposed Accounting Standards Update, *Consolidation (Topic 810) – Principal versus Agent Analysis*. Lilly is a large, multinational pharmaceutical company, with presence in over 50 country jurisdictions, and creates and delivers innovative medicines that enable people to live longer, healthier, and more active lives.

We support the FASB’s effort in providing guidance on assessing whether a decision maker is a principal or an agent. The proposal would more closely align the variable interest model with the voting model in US GAAP, particularly as it relates to kick-out and participating rights.

While this comment letter addresses the FASB proposal, we continue to encourage the FASB and International Accounting Standards Board (IASB) (collectively, the Boards) to work towards a converged standard. We have many subsidiaries outside of the United States that are reporting under local GAAP, that in many cases, is similar or the same as International Financial Reporting Standards (IFRS). The current differences in the two models (FASB and IASB) may lead to different consolidation conclusions in the same jurisdiction, which would add a lot of unnecessary work for a company, without any additional benefits. The IASB issued *IFRS 10 Consolidated Financial Statement* in May 2011 that included applying certain principals (e.g. potential voting rights). We do not agree that the potential voting rights should be included in the consolidation analysis, until those rights are exercised.

We generally support the qualitative approach proposed by the FASB, however, we encourage the Board to consider the following concerns:

Additional guidance on how to weigh the factors in the principal-agent analysis

In general, we agree with the use of judgment in determining how to weigh each factor in the overall principal versus agent analysis. We ask the Board to consider providing additional guidance on how to apply this weighting so that the application of the principle can be used consistently. In the Basis for Conclusions (BC) 19, the Board noted that a reporting entity should consider whether its economic interests are disproportionately greater than the economic interests held by other parties, and if so, the economic factors would potentially have more weight in the analysis, compared to the rights held by others.

The examples in the implementation guidance were helpful to understand the proposal, but there are some situations in which the conclusion is not as obvious. The guidance provided an example in the guidance whereby a decision maker holds a 20 percent pro rata interest in the entity and there is a substantive board of directors that have the ability to kick-out the fund manager. The example concluded that the decision maker was deemed to be an agent. If we were to add more facts to the example, e.g. the decision maker acquires additional interests that do not have voting rights, it is unclear how much additional weighting the economic interests would have, compared to the substantive kick-out rights, and whether it would change the agent conclusion.

In addition to applying weighting to the 3 qualitative factors (rights held by others, compensation, and other interests held), it is also not apparent how the weighting would be applied for one of the qualitative criteria - other interests held. When assessing this factor, a decision maker would consider the aggregate economic exposure, whether it is exposed to more variability than other investors, whether it is exposed only to positive, negative returns or both, and the maximum exposure to losses of the entity. The guidance is not clear what circumstances would cause one factor to receive more weight than another. Some of the examples place more weight on the decision maker having more variability than other investors, with less weight placed on the limited downside risk. In other examples, more emphasis was placed on the maximum exposure to losses, compared to other factors, even though there may have been a low probability of occurrence for the maximum exposure.

Another aspect that was not clear in the guidance is who should consolidate an entity if the rights have been delegated to a decision maker who is deemed to be an agent. For example, a general partner has power but is deemed to be an agent, and the limited partner has no kick-out rights or participating rights and is also not deemed to have power. In this instance, we would conclude that neither the general partner nor the limited partner would consolidate because neither party is exercising power as a principal. It is unclear whether the Board would reach a similar conclusion given BC 8, "the parties or parties that actually control the entity should not avoid consolidating the entity by delegating its decision-making authority". It would be helpful for the Board to include examples that identify instances in which a limited partner would consolidate, where a general partner is considered an agent.

Substantive kick-out rights should be determinative

We agree with the FASB model that substantive kick-out rights held by multiple unrelated parties should be considered as part of the analysis when evaluating whether to consolidate and entity. As part of that analysis, we concur with the proposal that a decision maker should consider the number of parties required to act together and whether there are any barriers in exercising those rights. However, we believe that substantive kick-out rights should be determinative, even when more than one party would need to come together to exercise those rights.

This view is more consistent with the consolidation approach where a party with decision-making authority does not have control unless that authority can be exercised unilaterally. Even if those rights are seldom exercised, the possibility that these rights may be exercised may still influence the actions of a decision maker (in an agent capacity) to be more closely aligned to other interest holders. In practice, the rights may not be exercised because no need arises in the course of business, and the absence of exercising those rights does not mean they lack substance. In BC 18, while the Board believes that "...there should be a realistic possibility" to exercise these rights, we believe that the probability of actual exercise should not be a factor.

Overall, we like the principles-based approach of this exposure draft and ask the Board to provide additional clarity on some aspects. While this comment letter addresses the FASB proposal, we continue to encourage the Board to work with the IASB to develop a converged standard.

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,

S/Arnold Hanish
Vice President, Finance,
and Chief Accounting Officer