



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

www.lilly.com

September 25, 2012

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

Re: File Reference No. 2012-200 – *Disclosures about Liquidity Risk and Interest Rate Risk*

Dear Director:

Eli Lilly and Company (“Lilly”) appreciates the opportunity to comment on the Financial Accounting Standards Board’s (the “FASB”) Proposed Accounting Standards Update (the “ASU”) *“Disclosures about Liquidity Risk and Interest Rate Risk”*. Lilly is a multinational pharmaceutical company with legal entities in over 50 jurisdictions.

While we respect that the FASB’s ASU is in response to the feedback received from the outreach efforts to financial statement end users, some of which desire more information about liquidity and interest rate risks, we do not believe that the extensive proposed requirements of duplicative current reporting requirements would provide the additional insight to financial statement end users as requested, particularly those end users of non-financial institutions. This type of forward-looking information seems better suited for the Management and Discussion Analysis (MD&A) section of our annual Form 10-K rather than in the historical disclosures to the audited financial statements. Providing this type of forward-looking, difficult to audit, and non-historical information could lead to disparity in practice and would not have an incremental benefit above and beyond the currently required Securities and Exchange Commission (SEC) forward-looking MD&A information, which includes, among other requirements, future long-term-debt (including interest payments) obligations, future lease obligations, and other future purchase obligations.

Moreover, the risks we currently disclose prominently in our financial statements are much more relevant to the end users of our financial statements than liquidity risk since we are a non-financial institution. Basic information currently required to be reported in our historical financial statements, such as information about liquid assets and short-term debt that can be extracted from our classified balance sheet which details current liabilities and current assets from non-current liabilities and non-current assets represents yet another current indicator of liquidity that is currently available to financial statement end users. The necessity for standardized liquidity disclosures should not be mandated or required on a routine basis if they do not represent the most relevant risks of a company that is not a financial institution.

In addition, the onerous nature of the proposed required disclosures seems to contradict the philosophy behind the Boards contemplated new project to establish a framework to improve the effectiveness of disclosures in the notes to financial statements. We therefore respectfully encourage the FASB to await the determination of the course of the disclosure effectiveness project prior to the issuance of the ASU.

Following are responses to the selected questions addressed in the ASU.

Questions for Preparers and Auditors – Liquidity Risk

Question 2: For an entity that is not a financial institution, the proposed amendments would require a cash flow obligations table that includes the expected maturities of an entity's obligations. Do you foresee any significant operational concerns or constraints in complying with this requirement? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?

The expected cash flow obligations exhibit has many similarities to the contractual obligations exhibit we are currently required to disclose in the MD&A section of our annual Form 10-K by SEC Item 303(a)(5) of Regulation S-K. Information that essentially provides similar information to financial statement end users should not be required to be disclosed twice, once in the MD&A and once in the footnotes to the audited financial statements. Not only would such additional disclosures be overly burdensome for companies to prepare, it would not benefit investors to further increase the number, length, and complexity of company disclosures on financial matters.

In addition, the FASB proposes to require this information to be presented quarterly, while SEC only requires it to be presented annually. The further separation by the FASB of the exhibit into a category for each of the next four quarters instead of a separation over the next year seems especially onerous. Finally, it will be a cumbersome exercise to provide auditable detail of expected cash flow maturities on a quarterly basis for companies whose primary risks are not based on liquidity issues. This type of information is typically available at a much less granular level at non-financial institutions and is used typically for internal reporting purposes to manage the business. Moreover, for non-financial institutions, this type of information may not be readily available in the frequency requested or a precise format that is easily extracted and may be relied upon from the IT system. It is therefore our belief that the current risk disclosure and guaranty disclosure requirements, recurring fair value exhibit disclosure requirements, and borrowings footnote disclosure requirements provide an accurate enough picture of our liquidity on an annual basis.

Question 3: The proposed amendments would require information about expected maturities for financial assets and financial liabilities to highlight liquidity risk. *Expected maturity* is the expected settlement of the instrument resulting from contractual terms (for example, call dates, put dates, maturity dates, and prepayment expectations) rather than an entity's expected timing of the sale or transfer of the instrument. Do you agree that the term *expected maturity* is more meaningful than the term *contractual maturity* in the context of the proposed liquidity risk disclosures? If not, please explain the reasons and suggest an alternative approach.

Although the expected maturity concept may provide meaningful information for some companies, it may not be different than the current, required disclosures for many non-financial companies, and thus not worth the cost and effort to determine expected maturity. Furthermore, if management of non-financial companies is not using this information to manage the liquidity risk of the company, it does not seem necessary for it to be disclosed externally. The expected maturity concept will be challenging to apply, and may lead to diversity in practice due the varying estimation processes that may be used to evaluate the expected maturity and also changing market conditions could lead to changes in expectations. In addition, expected maturity could be considered in different ways for different instruments, and the qualitative disclosures that may be required as a result of those differences could cause too much emphasis to be placed on an exhibit that simply should not be a high risk focus point for the end users of non-financial companies. It may be more relevant for non-financial institutions to provide a qualitative disclosure of any off-balance sheet commitments and their expected obligations, if relevant and material to a company's audited financial statements.

Question 4: The proposed amendments would require a quantitative disclosure of an entity's available liquid funds, as discussed in paragraphs 825-10-50-23S through 50-23V. Do you foresee any significant operational concerns or constraints in complying with this requirement? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?

It will be a cumbersome exercise to provide auditable detail of expected cash flow maturities on a quarterly basis for non-financial institutions whose primary risks are not based on liquidity issues. It is our belief that the current risk disclosure and guaranty disclosure requirements, recurring fair value exhibit disclosure requirements, and borrowings footnote disclosure requirements provide an accurate enough picture of our liquidity on an annual basis. In addition, the definition of a "high-quality liquid asset" is currently unclear and as a result, entities would need to apply judgment when assessing whether a liquid asset is of high quality, leading to disparity in practice. Finally, an "Available Liquid Funds" exhibit is not required under IFRS, and therefore the FASB would be setting more stringent requirements than the IASB.

Question 6: As a preparer, do you feel that the proposed amendments would provide sufficient information for users of your financial statements to develop an understanding of your entity's exposure to liquidity risk? If not, what other information would better achieve this objective?

The information currently in our MD&A contractual obligations exhibit as required by SEC Item 303(a)(5) of Regulation S-K on an annual basis, in conjunction with the current requirements for liquidity risk disclosures should provide sufficient information to users of our audited financial statements to develop a sufficient understanding of our exposure to liquidity risk. The amount of additional detail that is being requested to be provided would not provide the value to end-users of the financial statements that would be warranted by performing such an exercise.

Questions for All Respondents

Question 20: The amendments in this proposed Update would apply to all entities. Are there any entities, such as nonpublic entities, that should not be within the scope of this proposed Update? If yes, please identify the entities and explain why.

Public entities that are non-financial institutions that are currently required to disclose in their MD&A by SEC Item 303(a)(5) of Regulation S-K should not be within the scope of this proposed ASU.

Question 21: Although the proposed amendments do not have an effective date, the Board intends to address the needs of users of financial statements for more information about liquidity risk and interest rate risk. Therefore, the Board will strive to make these proposed amendments effective on a timely basis. How much time do you think stakeholders would require to prepare for and implement the amendments in this proposed Update? Should nonpublic entities be provided with a delayed effective date? If so, how long of a delay should be permitted and why? Are there specific amendments that would require more time to implement than others? If so, please identify which ones and explain why.

It will likely be necessary to make programming changes to extract the required information from our IT systems. Given the amount of time it takes to make these changes and schedule them for implementation and testing, it would likely take a year or two after issuance of the final standard for us to be ready to make the disclosures.

It will also require review by external auditors and approval by the internal legal departments and external legal counsel. Companies may also not at first fully appreciate the implementation challenges and costs (IT, data collection costs, internal control matrix changes (including testing additions)) that would be required for such an extensive new disclosure requirement.

Question 22: Do you believe that any of the amendments in this proposed Update provide information that overlaps with the SEC's current disclosure requirements for public companies without providing incremental information? If yes, please identify which proposed amendments you believe overlap and discuss whether you believe that the costs in implementing the potentially overlapping amendments outweigh their benefits? Please explain why.

As previously stated, we believe the proposed requirements of the cash flow obligations exhibit overlap with the MD&A contractual obligations exhibit as required by SEC Item 303(a)(5) of Regulation S-K. We believe the available liquid funds exhibit overlaps with the current US GAAP risk disclosure and guaranty disclosure requirements, recurring fair value exhibit disclosure requirements, and borrowings disclosure requirements, all of which currently, combined, provide a sufficiently accurate and complete picture of our liquidity on an annual basis.

Conclusion

Lilly once again supports the FASB's objective to develop a new, comprehensive standard for liquidity and interest rate risk disclosure requirements based on the primary risks at a company. However, as indicated in our responses above, we believe some of the proposed standard needs further clarification or additional consideration based on the actual primary identified risks of a company, and specifically that the proposed standard need not apply to non-financial institutions. We also strongly believe the FASB and IASB should continue to work together to create a converged, less onerous standard that is not duplicative of existing requirements and that focuses on the primary risks of an individual company without choosing a certain risk and escalating its importance for all companies, without allowing for an element of judgment.

We appreciate the opportunity to express our view 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

Arnold C. Hanish
Vice President, Finance and
Chief Accounting Officer