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December 10, 2012

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

Re: File Reference No. 2012-220 –*Disclosure Framework*

Dear Director:

Eli Lilly and Company (“Lilly”) appreciates the opportunity to comment on the Financial Accounting Standards Board’s (the “Board”) Discussion Paper, “*Disclosure Framework*” (the “Discussion Paper”). Lilly is a multinational pharmaceutical company with legal entities in over 50 jurisdictions.

Lilly supports the Board’s objective to improve the effectiveness of disclosures in notes to financial statements by clearly communicating the information that is most important to users of each entity’s financial statements. We also support developing a disclosure framework to achieve this objective. As the Discussion Paper clearly notes, the volume of financial statement disclosures has steadily increased over recent years as users continue to request additional information. The disclosure requirements of the Board’s recently issued accounting standards (as well as those currently in the Board’s pipeline), coupled with the seemingly insatiable demand by users for more information appears to ensure that this trend will continue for the foreseeable future. Further pressures from auditors, regulators and legal advisors drive additional disclosures, as a reporting entity’s most expedient (and potentially less risky) response to questions or comments is often to add disclosures, even if management thinks the information is irrelevant. As a result, financial disclosures have ballooned with unnecessary information that inhibits a user’s ability to easily access the information that is relevant to their understanding of a reporting entity’s financial condition. We believe establishing a disclosure framework to enhance the information provided in the notes is a much needed development in the overall effort to redirect financial disclosures onto a sustainable path.

In order to develop a suitable disclosure framework, we believe it is critical to define the type of information content that is appropriate to be included in the notes to financial statements. While the concepts included in the Discussion Paper take a noble first step toward the Board’s initiative, we are troubled by the forward-looking nature of many of the indicated disclosures noted in Chapter 2. It is critical to understand that information provided within the financial statements and footnotes is subject to external audit and XBRL tagging and is not subject to

Safe Harbor rules. However, information provided under the SEC Regulation S-K (and the MD&A and market risk disclosures within) is not subject to external audit or detailed tagging, and includes unauditable, forward-looking information subject to Safe Harbor rules. We believe the information included in the notes to financial statements should be limited to historical financial information, descriptions of management's judgments and estimates and relevant accounting policies. Forward-looking information should be restricted to MD&A.

We believe the disclosure framework should be applied by the Board in deciding whether information is relevant. Reporting entities, on the other hand, should be provided with flexibility in determining the extent to which information is material.

To fully address disclosure overload, we believe it is critical for the framework to be developed in collaboration with auditors and the SEC, and interim disclosure requirements must also be specifically addressed.

Following are responses to selected questions addressed in the Discussion Paper.

## **Chapter 2 – The Board's Decision Process**

**Question 2: Do the decision questions in this chapter and the related indicated disclosures encompass all of the information appropriate for notes to financial statements that is necessary to assess entities' prospects for future cash flows?**

We believe the information included in the notes to financial statements should be limited to historical financial information, descriptions of management's judgments and estimates and relevant accounting policies. The decision questions and related indicated disclosures in this chapter extend beyond this realm as noted in our response to Question 3 below.

**Question 3: Do any of the decision questions or the related indicated disclosures identify information that is not appropriate for notes to financial statements or not necessary to assess entities' prospects for future cash flows?**

Yes, we believe there are several indicated disclosures that identify information that is not appropriate for notes to financial statements. In general, we object to the inclusion of disclosures that are forward-looking in nature, as we feel these disclosures are only appropriate for MD&A. We are also concerned with disclosures that would require "what-if" analysis regarding the hypothetical impact of alternative accounting methods not elected by the reporting entity.

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The following are specific indicated disclosures of concern:

- 1) The indicated disclosure considerations for Question G2 include *“Consolidation policies and procedures, including the reasons for consolidating entities, and elimination of intercompany transactions and balances, if any.”*

Disclosure of this information would seem to contradict the concept noted in paragraph 2.15(b) which states, *“Users would be expected to be aware of such things as U.S. GAAP, commonly used pricing models, and SEC reporting requirements. Accounting methods would be disclosed only in situations in which alternatives are permitted, the method is not otherwise apparent, or the method has changed.”*

- 2) The indicated disclosure considerations for Question G3 include *“Descriptions of commitments made or planned uses for a cash balance.”*

This type of forward-looking information is better suited for the MD&A section rather than in the historical disclosures to the 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 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.

- 3) The indicated disclosure considerations for Question L7 state, *“The Board should consider requiring disclosure of the causes of changes from the prior period (such as major inflows and outflows summarized by type or a detailed roll forward). It would be important to separate routine changes from nonroutine changes and changes in reported amounts caused by changes in accounting, changes in economic conditions, and changes in contractual obligations or rights.”*

Depending on the information that the Board requires, accurately separating these causes of change may not be feasible for reporting entities. In addition, we question how the Board would define the inherently nebulous concepts of “routine” and “nonroutine” changes in a way that could avoid inconsistent application among reporting entities.

- 4) The indicated disclosure considerations for Question L16 include *“An indication of the magnitude of the difference between the reported measurement and the alternative measurement (or the amount of the alternative measurement).”*

Even though Question L16 is referring to alternative measures that *“clearly would be useful in assessing prospects for future cash flows”*, we disagree with the principle of allowing an entity to choose a measurement option that is acceptable under U.S. GAAP,

but requiring them to prospectively assess, calculate and disclose the accounting related to alternative options not chosen.

**Question 4: Would these decision questions be better applied by reporting entities instead of the Board? In other words, should the Board change its practice of establishing detailed requirements in each project and, instead, establish a single overall requirement similar to the questions in this chapter?**

We believe the Board should utilize a set of decision questions to identify the entire population of disclosures under each accounting topic that are potentially relevant to a user of a reporting entity's financial statements. The reporting entity could then decide, on an item-by-item basis, which of those disclosures is material, and therefore meaningful to a user of their financial statements.

**Question 5: Do you think that this decision process would be successful in helping the Board to set more effective disclosure requirements? If not, what would be a better approach?**

We believe a decision process could be successful in helping the Board to set more effective disclosure requirements. Refer to our previous comments regarding issues we've noted with the current proposed decision process.

### **Chapter 3 – Making Disclosure Requirements Flexible**

**Question 6: Would any of the possibilities in this chapter (see paragraphs 3.8 and 3.11) be a practical and effective way to establish flexible disclosure requirements?**

We support the approach noted in paragraph 3.11(b) as the most practical and effective option. We believe the Board should identify the entire population of disclosures under each accounting topic that are potentially relevant to a user of a reporting entity's financial statements. We believe that reporting entities should be able to make their own decisions about the materiality (and therefore relevance) of each disclosure on an item-by-item basis within an accounting topic.

The minimum disclosure and tiered approaches noted in 3.11(c) and 3.11(d) appear to be unnecessarily complicated and would result in the disclosure of immaterial information, thereby making it more difficult for users to identify the relevant information.

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## Chapter 4 – Reporting Entities’ Decisions about Disclosure Relevance

**Question 9: This chapter attempts to provide a benchmark for judgments about disclosure relevance by clarifying the objective for the judgments. Is the description of the approach clear enough to be understandable? If not, what points are unclear?**

Information should be disclosed if it *would* change a user’s assessment of cash flow prospects by a *material* amount.

**Question 10: Can this approach (or any approach that involves describing the objective for the judgments) help identify relevant disclosures? If so, what can be done to improve it? If not, is there a better alternative? What obstacles do you see, if any, to the approach described?**

We foresee the greatest potential problems arising from auditors and regulators challenging decisions made by reporting entities on what disclosures are relevant, which would potentially lead to unnecessary disclosure volume as the most expedient and less risky response to questions/comments. We believe that it is absolutely imperative to have auditors and regulators on board with the final disclosure decision process. If auditors and regulators do not honor the final process, unnecessary disclosures will continue to muddy the waters in the notes of the financial statements, making it increasingly more difficult to identify relevant information. A commitment by auditors and regulators to challenge the relevance of disclosures included in a filing seems to be a missing element from today’s disclosure environment.

**Question 11: Reporting entities would need to document the reasons for their decisions about which disclosures to provide. How would reporting entities document the reasons for their disclosure decisions and how would auditors audit those decisions?**

Disclosure decisions are currently documented through the use of U.S. GAAP and SEC disclosure checklists. We expect the documentation of reporting entities’ disclosure decisions and the related auditing process would be consistent with existing practices.

## Chapter 5 – Format and Organization

**Question 12: Would any of the suggestions for format improve the effectiveness of disclosures in notes? If so, which ones? If not, why not?**

The format suggestions noted in this chapter improve effectiveness, although we feel that these concepts are already widely known and understood by reporting entities.

**Question 13: What other possibilities should be considered?**

We would be supportive of an initiative encouraging reporting entities to write disclosures in plain English.

**Question 14: Do any of the suggested methods of organizing notes to financial statements improve the effectiveness of disclosure?**

The proposed note organization in paragraph 5.22 is a reasonable approach.

## **Chapter 6 – Disclosures for Interim Financial Statements**

**Question 16: Do you think that any of the possibilities in this chapter would improve the effectiveness of disclosures for interim financial statements?**

**Question 17: If you think that a framework for the Board's use in deciding on disclosure requirements for interim financial statements would improve the effectiveness of interim reporting, what factors should the Board consider when setting disclosure requirements for interim financial statements?**

**Question 18: If you think that a framework for reporting entities' use in deciding on disclosures for interim financial statements would improve the effectiveness of interim reporting, what factors should reporting entities consider when providing disclosures for interim financial statements?**

**Question 19: What impediments do you see regarding the development of a framework for the Board, reporting entities, or both that addresses disclosures for interim financial statements?**

We support the view in the existing SEC framework for interim reporting that interim reports are an integral part of the annual reporting cycle. As such, interim disclosures are intended to update the most recent annual financial statements. We support an approach in which reporting entities utilize a framework in deciding on disclosures for interim financial statements. We would prefer an approach that involves decisions made by the reporting entity over a list of mandated interim disclosures from the Board.

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## Chapter 7 – Other Matters for Discussion

**Question 20: Would the change to the requirements described in paragraph 7.8 for disclosure of the summary of accounting policies improve the effectiveness of disclosure?**

**Question 21: Should the summary of accounting policies include information about industry-specific accounting policies?**

We support narrowing the existing requirements for the summary of accounting policies. The summary of accounting policies should be limited to policy elections that can vary from company to company, and entity-specific accounting determinations that are material to the financial statements. Policies related to immaterial items or policies that should be generally understood should be omitted.

We believe inclusion of industry specific accounting policies would be helpful to users. However, our position is based on the concept that the more general, non-industry specific accounting policies would be reduced or eliminated by the requirements of the final framework.

In addition, we note that accounting policy information is often duplicated between the notes to financial statements and the critical accounting estimate disclosures within MD&A, further contributing to the overall disclosure volume issue. While we acknowledge that the MD&A disclosures are intended to supplement, not duplicate the notes to financial statements, the reality is that reporting entities often repeat information in both disclosures. We believe consolidating these separate disclosures into one location within the filing could potentially lead to the elimination of duplicative policy information, serving to reduce overall disclosure volumes.

**Question 22: Are there other required disclosures that could be modified or eliminated in the short term that would result in a significant reduction in the volume of notes to financial statements?**

Encouraging and providing guidance on cross-referencing could be very helpful to reporting entities. Reporting entities are sometimes hesitant to incorporate information by reference out of fear that regulators will object. By providing clearer guidance and examples on the appropriate situations to cross-reference, we believe entities would utilize this approach more often.

### Conclusion

Lilly once again supports the Board's objective to improve the effectiveness of disclosures in notes to financial statements, and we believe the development of a disclosure framework is the necessary first step in the process. However, as indicated in our responses above, we believe

the information content of the notes to financial statements must be properly bound to exclude forward-looking information and “what if” analysis on management’s judgments and estimates. We also strongly believe that the Board must work in collaboration with auditors and the SEC throughout the course of this project in order to ensure that the final principles are not undermined in practice.

We appreciate the opportunity to express our view and concerns regarding the discussion paper. 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