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Date: April 1, 2009



LETTER OF COMMENT NO.

267

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

Re: File Reference: Proposed FSP FAS 115-a, FAS 124-a, and EITF 99-20-b

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. 115, Accounting for Certain Investments in Debt and Equity Securities (hereafter referred to collectively as the "Proposed FSP").

We support the FASB's efforts to provide guidance related to other-than-temporary impairments (OTTI) that is more operational and to improve the presentation of these impairments in financial statements. While we agree with modification of the indicator of impairment and bifurcation of the credit component, we strongly disagree with the proposed presentation requirements in the statement of earnings and fail to see the benefit it provides to readers of the financial statements.

Issue 1: This proposed FSP would require entities to separate (and present separately on the statement of earnings) an other-than-temporary impairment of a debt security into two components when there are credit losses associated with an impaired debt security for which management asserts that it does not have the intent to sell the security and it is more likely than not that it will not have to sell the security before recovery of its cost basis. The two components would be (a) the credit component and (b) the noncredit component (residual related to other factors). Does this separate presentation provide decision-useful information?

We agree with the proposed bifurcation of OTTI into credit and noncredit components for the purpose of reflecting credit losses in earnings and noncredit OTTI in other comprehensive income. We believe this more appropriately distinguishes between the portion of the OTTI that would be recovered if the security was held until maturity and the portion of the OTTI that may ultimately be realized as a result of credit issues. We strongly disagree, however, with the proposed presentation of these OTTI as illustrated in paragraph 16B in the Proposed FSP. The current disclosures for other comprehensive income already require disclosure of the amount of unrealized gains and unrealized losses on marketable securities for available-for-sale (AFS) investments. All noncredit losses for OTTI securities would be included in these disclosures. When an entity discloses that it does not have the intent to sell a security before its recovery and it is "more-likely-than-not" that it won't sell a security before its recovery, then a separate presentation of these potential losses does not provide any additional benefit to readers of the financial statements from what is required to be disclosed in other comprehensive income. In addition, we believe this requirement would create unnecessary burdensome changes to the current reporting for debt securities in loss positions. Many entities would need to create complex reports to generate investment data that first reflects OTTI in earnings with offsetting entries to other comprehensive income. It appears that this rule would also result in

inconsistent treatment in the presentation of OTTI for AFS securities that had a credit loss component (entire OTTI presented in the statement of earnings, split into two components) as compared to the presentation of unrealized losses for AFS securities where there is no credit loss (nothing included in the statement of earnings).

Issue 2: The proposed FSP would require that the credit component of the other-than-temporary impairment of a debt security be determined by the reporting entity using its best estimate of the amount of the impairment that relates to an increase in the credit risk associated with the specific instrument. Do you believe this guidance is clear and operational? Do you agree with the requirement to recognize the credit component of an other-than-temporary impairment in income and the remaining portion in other comprehensive income? Under what circumstances should the remaining portion be recognized in earnings?

We conceptually agree with the proposal to separate the credit component of an OTTI from the noncredit component and to reflect the credit loss in earnings. Losses related to the noncredit component on securities that management does not intend to sell and will "more-likely-than-not" not have to sell prior to recovery of its cost basis, will ultimately be recovered if the security is held to maturity. Therefore, it seems reasonable to reflect the noncredit losses which could move constantly with the market and eventually recover at maturity in other comprehensive income.

Issue 3: This proposed FSP modifies the current indicator, that, to avoid considering an impairment to be other than temporary, management must assert that is has both the intent and ability to hold an impaired security for a period of time sufficient to allow for any anticipated recovery in fair value. The Board believes that, compared to current requirements, it is more operational for management to assert that (a) it does not have the intent to sell the security and (b) it is more likely than not that it will not have to sell the security before its recovery. Does this modification make this aspect of the other-than-temporary impairment assessment more operational? Should this modification apply to both debt and equity securities? Will this change result in a significant change to the assessment of whether an equity security is other-than-temporarily impaired?

We believe the proposed modification to the current indicator of OTTI alleviates some of the current subjectivity in determining whether an investment will be held to recovery. The "more-likely-than-not" guideline is more operational and is an improvement compared to the existing "ability to hold to recovery" guidance in light of the uncertainties that are normally present. We are in agreement that the modification is beneficial in ascertaining whether an impairment is other-than-temporary for both debt and equity securities.

Issue 5: Is the proposed effective date of interim and annual periods after March 15, 2009, operational?

We view these proposed changes as an improvement in determining the amount of OTTI that should be reflected in the statement of earnings and strongly encourage the Board to make them effective for first quarter 2009 reporting. However, we believe that this new guidance may be difficult for some companies to implement on such short notice. To address this situation, we recommend that implementation of the new rules not be required until the second quarter of 2009, with early adoption permitted.

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 Vice President and Chief Accounting Officer