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May 15, 2013

Technical Director, FASB
File Reference No. 2013-220
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2013-220 – *Proposed Accounting Standards Update: Recognition and Measurement of Financial Assets and Financial Liabilities*

Dear Technical Director:

Eli Lilly and Company (“Lilly”) appreciates the opportunity to comment on the Financial Accounting Standards Board’s (the “FASB”) Proposed Accounting Standards Update (ASU): *Recognition and Measurement of Financial Assets and Financial Liabilities*. Lilly is a multinational pharmaceutical company with legal entities in over 50 jurisdictions.

Lilly supports the FASB’s objective to develop a new, comprehensive standard for financial instruments that is principles-based and less complex. We believe certain proposed changes will bring the standard closer to a principles-based approach. We are concerned, however, that many of the proposed changes will create a more complex standard and will result in significant system and operational challenges, particularly for non-financial institutions.

We support the continued efforts of the FASB and IASB to bring accounting guidance on financial instruments closer to convergence, and we strongly believe both boards should continue these efforts to work together to create a converged standard on financial instruments.

Following are our responses to selected questions addressed from the Proposed ASU.

Responses

Question 4: Do the proposed amendments appropriately convey the principle associated with the contractual cash flow characteristics assessment? If not, why? What would you propose instead?

For non-financial institutions that do not consider investing in financial instruments their core business, if readily marketable equity investments are fair valued through net income, increased volatility in net income would occur due to market gains and losses. As a result, the financial statement users may lose sight of the core business indicators and results of the non-financial institution. We believe the proposed change regarding readily marketable equity securities will not result in more useful, transparent or relevant information to financial statement users and could have the unintended

consequence of leading entities to invest in other types of investments that may not suit their objectives as well in an effort to avoid the volatility in earnings.

Question 7: Should a financial asset with a contractual term that modifies the economic relationship (see paragraphs 825-10-55-17 through 55-20) between principal and interest be considered to contain cash flows that are solely payments of principal and interest? Should this be the case if, and only if, the contractual cash flows could or could not be more than insignificantly different from the benchmark cash flows as discussed in paragraph 825-10-55-19? If not, why? What would you propose instead?

We support the continued effort to adopt principles-based guidance, however, the cash flow characteristic criteria as proposed would likely contribute to operational difficulties, inconsistencies and unintended consequences. For example, many debt instruments have features resulting from contractual terms that may give rise to contingent cash flows. These features are not always closely related to the underlying debt instrument but may be quite unlikely to occur. However, under the proposal, these insignificant features could require the entire debt instrument to be classified at fair value through net income and not classified at fair value through other comprehensive income, which does not seem consistent with the spirit of the proposed model, and would require undue operational difficulties related to system modifications, monitoring, reporting, and financial controls around thousands of investment CUSIPS as part of an initial and ongoing classification effort. We would therefore suggest that if the business model for these types of instruments is to manage the assets for the collection of contractual cash flows, the business model should trump the P&I test in this situation, and the entire debt instrument should be classified at fair value through other comprehensive income.

Question 16: Should financial liabilities subsequently be measured at amortized cost, unless certain exceptions are met? If not, why?

We strongly support the ability to measure financial liabilities at amortized cost, particularly due to differences in the composition of financial assets and liabilities between financial institutions and non-financial institutions. As a non-financial institution, a significant amount of non-financial assets are not measured at fair value, nor managed as such. We believe the current requirements to disclose the fair value of financial liabilities provides adequate information in the financial statements of non-financial institutions.

Question 19: The proposed amendments would provide a practicability exception for measuring equity investments without readily determinable fair values that do not qualify for the practical expedient in paragraph 820-10-35-59 (that is, the net asset value per share expedient) and a one-step impairment model for all equity investments subject to the practicability exception. Do you agree with the proposed amendments? If not, why?

We suggest that the proposed amendments be clarified to specify the intended inclusion of equity method investments in venture capital funds. We further suggest that the criteria for the practicability exception as proposed in ASC 323-10-15-20 (below) be either having indicator a) or b) below, and that the proposed requirement that both indicators be present be removed from the proposal.

Proposed Excerpt:

323-10-15-20 Upon the initial qualification of an investment for the equity method of accounting, an investor shall evaluate whether it holds the investment for sale. An investor shall consider an investment for which both of the following indicators are present to be held for sale:

- a. The investor has identified potential exit strategies even though it may not yet have determined the specific method of exiting the investment.
- b. The investor has defined the time at which it expects to exit the investment, which may be either an expected date or range of dates or a time defined by specified facts or circumstances, such as achieving specified milestones or the stated investment objectives of the investor.

Question 22: The proposed amendments would require reclassification of financial assets when a change in business model occurs and prescribes how those changes should be subsequently accounted for. Do you agree with the proposed amendment on reclassifications? If not, why?

We agree that reclassifications should be infrequent, and that if an entity's business model changes, reclassifications should be permitted because accurate classification of financial instruments based on an entity's business strategy should be the ultimate outcome and entities may have multiple business strategies that are continually being evaluated. However, as long as an entity is being consistent with their accounting policy on such reclassifications, entities should be able to make the choice on how and when those reclassifications are subsequently accounted for.

Question 29: Do you agree with the proposed disclosure requirements? If not, which disclosure requirement would you change and why?

We do not advocate overpowering the face or footnotes of the financial statements with multiple presentations of the same financial information. The current requirement to disclose in the footnotes fair value information related to financial assets and financial liabilities provides attainable, adequate information for non-financial institutions whose core business is not the management of financial assets and financial liabilities. We are therefore not supportive of providing fair value information parenthetically on the face of the financial statements or in any further detail in the footnotes of the financial statements, particularly for non-financial institutions. We believe the FASB's proposal is intended to improve comparability of financial statements across entities and provide more relevant and reliable financial information that can be used to evaluate an entity's performance. For non-financial institutions, investing and financing activities are simply not considered the primary operations of the entity. Financial statement users of these entities will undoubtedly be more interested in analyzing the operations related to the primary, core business of the entity, and any additional fair value disclosure requirements would be superfluous to that interest. Furthermore, due to their heightened focus and magnitude when compared to currently required disclosures of the core business, the additional non-core business disclosures may seem to out-weigh in importance the core business disclosures of the entity. We therefore would suggest retaining the current fair value disclosure requirements in the financial statement footnotes for non-financial institutions.

Question 32: How much time is needed to implement the proposed guidance?

We believe the FASB should allow at least two to three years for implementation after issuance of the final ASU.

Conclusion

Lilly supports the FASB's objective to develop a new, comprehensive standard for financial instruments that is principles-based and less complex. We believe certain proposed changes will bring the standard closer to a principles-based approach. While significant changes have been proposed for recognition and measurement of financial assets and financial liabilities, we are not convinced the proposed ASU meets the objective of reducing the complexities of recognition and measurement of financial instruments. As indicated in our responses above, we believe some of the proposed ASU needs further clarification or additional consideration. We also strongly believe both boards should continue to work together to create a converged standard.

We appreciate the opportunity to express our view and concerns regarding the Proposed ASU. If you have any questions regarding our response, or would like to discuss our comments further, please call me at (317) 651-2310.

Sincerely,

ELI LILLY AND COMPANY

/s/ Donald A. Zakrowski

Donald A. Zakrowski
Vice President, Finance and
Chief Accounting Officer