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

www.lilly.com

August 14, 2015

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

Re: File Reference No. 2015-270, *Compensation-Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting*

Dear Director:

Eli Lilly and Company ("Lilly") appreciates the opportunity to comment on the Financial Accounting Standards Board's (the "Board") Proposed Accounting Standards Update, *"Compensation-Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting*" (the "proposed Update"). Lilly is a multinational pharmaceutical and animal health company with legal entities in over 50 jurisdictions.

Lilly supports the Board's objective to identify, evaluate and improve areas of GAAP for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of financial statements. We support the proposed changes for accounting for forfeitures, standardization of the minimum tax withholding threshold to qualify for equity classification and the treatment of stock compensation items in the statement of cash flows.

We are concerned by the proposed guidance to record both excess tax benefits and excess tax deficiencies directly in earnings. The difference between the compensation expense recognized for financial reporting purposes and the fair value of the stock award on the exercise date is appropriately never recognized in earnings by the reporting entity. Therefore, the excess tax benefit or deficiency should not be reflected in earnings. The granting of the award should result in compensation expense while the exercise of the award should remain an equity transaction. Any subsequent difference in realized tax benefits, excess tax benefit or tax deficiency, should continue to be recognized in additional paid-in capital. Given that we view this as an equity transaction, we further propose that any excess tax benefit or tax deficiency should be recognized as additional paid-in-capital, regardless to the extent of sufficient prior excess tax benefits available to absorb the deficiencies. This will simplify the accounting by eliminating the need to track the additional paid-in-capital pool.

Secondly, this proposed change would also complicate the income tax rate reconciliation disclosures. Recording excess tax benefits and deficiencies directly to the income tax provision will result in a new reconciling item between the statutory tax and effective income tax rates as

there is no corresponding pretax expense item related to the additional tax recorded. This will result in more complex tax disclosures.

Lastly, this proposal could increase volatility in net income as a result of changes in market values that are essentially outside the control of the company and not reflective of its operating results. Market performance of company stock should not have direct impact on the income statement. Moreover, users of financial statements will most likely back out a company's excess tax benefit (deficiency) to determine its underlying results of operations, which could result in companies increasing the use of non-GAAP measures to maintain ease of understanding a their earnings.

Following are responses to selected questions in the proposed Update:

Question 1: Do you agree that the proposed amendments result in a reduction (or potential reduction) of cost and complexity while maintaining or improving the usefulness of information provided to users of financial statements? If not, why?

We believe that all of the proposed amendments, except for the proposed guidance to record both excess tax benefits and excess tax deficiencies directly in earnings, will result in a reduction of cost and complexity while maintaining and improving usefulness of information provided to users of financial statements. We have serious concerns related to proposed changes in excess tax benefits and tax deficiencies.

Question 2: Should excess tax benefits and tax deficiencies be recognized in the income statement? If not, why, and are there other alternatives that are more appropriate? Should an entity delay recognition of an excess tax benefit until the benefit is realized through a reduction to taxes payable? If yes, why?

We do not believe that excess tax benefits and tax deficiencies should be recognized in the income statement. We strongly support the current guidance for recording the tax benefit or tax deficiency in additional paid-in-capital as the exercise of an award should remain an equity transaction. Any subsequent realized tax benefits, excess tax benefit or tax deficiency should be recognized in additional paid-in-capital. The complexity this change would add to the income tax rate reconciliation disclosures and volatility in net income would contradict the simplification initiatives of the Board and reduce the usefulness of information provided to users of financial statements.

Question 3: Should the effect on tax cash flows related to excess tax benefits be classified as an operating activity on the statement of cash flows? If not, what classification is more appropriate and why?

We previously stated our position that the exercise of an award is an equity transaction, therefore we believe the related effect on tax cash flows should be presented as a financing activity.

Question 4: Should entities be permitted to make an accounting policy election either to account for forfeitures when they occur or to estimate forfeitures? If not, why?

We support the proposal to permit entities to make an accounting policy election to account for forfeitures as they occur or to estimate forfeitures.

Question 5: Is the proposed expansion of the exception to liability classification related to the amount withheld for employee's taxes appropriate? If not, is there another exception that is more appropriate and why?

We support the proposal to expand the exception to liability classification related to the amount withheld for employee's taxes.

Question 6: Should the cash paid by an employer to the taxing authorities when directly withholding shares for tax-withholding purposes be classified as a financing activity on the statement of cash flows? If not, what classification is more appropriate and why?

We support the proposal to classify cash paid by an employer to the taxing authorities when directly withholding shares for tax-withholding purposes as a financing activity.

Question 10: Are the transition requirements for each area appropriate? If not, what transition approach is more appropriate?

We believe the transition requirements are appropriate.

Question 11: How much time will be necessary to adopt the amendments in this proposed Update? Should the amount of time needed to apply the proposed amendments by entities other than public business entities be different from the amount of time needed by public business entities?

Changes related to accounting of excess tax benefits and deficiencies will require increased costs to re-work current process and education of not only accounting/ tax groups but also management, investor relations and users of the statements. If the amendments are approved as proposed, we believe the effective date should not be before January 1, 2017 for calendar year-end public and non public reporting entities, with early adoption permitted.

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) 651-2310.

Sincerely,

ELI LILLY AND COMPANY

/s/Donald A. Zakrowski

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