



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

www.lilly.com
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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. 2015-340, *Government Assistance (Topic 832), Disclosures by Business Entities about Government Assistance*

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, *“Government Assistance (Topic 832), Disclosures by Business Entities about Government Assistance”* (the “proposed ASU”). Lilly is a multinational pharmaceutical and animal health company with more than 200 legal entities in over 80 jurisdictions.

We understand the Board’s desire to increase transparency about government assistance arrangements; however, we believe the scope of the proposed ASU is too broad and, if left unchanged, the benefits of the proposed disclosures will not justify the costs to prepare.

- The scope of this proposed ASU should exclude **all** income-tax-related assistance.
 - The proposed ASU requires companies to identify and distinguish where interpretive guidance on income taxes is provided by tax authorities versus where income taxes are reduced by discretionary actions. This is a significant task.
 - The recognition, measurement and disclosure for income taxes have been governed by ASC 740, which we believe already provides for adequate disclosure. To have the disclosure regarding income taxes governed by another set of rules is redundant and can potentially create conflicts.
 - Specifically, ASC 740 requires companies to provide a tax rate reconciliation that reconciles income tax expense attributable to continuing operations to the statutory income tax rate applied to pretax income from continuing operations. Government assistance which materially alters a company’s income taxes is subject to this requirement.
 - We also believe the requirements are redundant to the specific SEC disclosure requirements under SAB Topic 11.c. (codified into ASC 740-

10-S99) for tax holidays which requires a filer to disclose both the aggregate dollar value, the per share effects of the tax holiday as well as the factual circumstances of the arrangement including the date on which the special tax status will terminated.

- We oppose the Board's proposed requirement that an entity quantify and disclose the amount of assistance received but not recognized directly in any financial statement line item.
- We are concerned that the costs of implementing and maintaining the necessary processes and controls to gather the information needed for the proposed ASU greatly outweigh the benefit of these disclosures, if any, to users when analyzing an entity's financial results and prospects for future cash flows.

Following are responses to selected questions in the proposed ASU:

Question 1: Do you agree that the scope of the amendments in this proposed Update should be limited to legally enforceable agreements in which an entity or entities receive value from a government? Do you also agree that the scope of the proposed amendments should not apply to transactions in which the government is (a) legally required to provide a nondiscretionary level of assistance to an entity simply because the entity meets applicable eligibility requirements that are broadly available without specific agreement between the entity and the government or (b) solely a customer? If not, what other types of arrangements should be included in or excluded from the scope of the amendments in this proposed Update? Explain why.

We agree that the scope of the amendments should be limited to legally enforceable agreements in which an entity or entities receive value from a government. We also agree that the scope should not apply to transactions in which the government is (a) legally required to provide a nondiscretionary level of assistance to an entity simply because the entity meets applicable eligibility requirements that are broadly available without specific agreement between the entity and the government or (b) solely a customer.

Further, one of the proposed ASU's stated goals is to provide financial statement users with information to analyze an entity's prospects for future cash flows related to government assistance. While we acknowledge that such prospective information may be useful, we believe material changes in an entity's expectation about future cash flows are already adequately addressed through other risks and uncertainties disclosure requirements pursuant to ASC 275. Under these reporting obligations, if an entity was at risk of losing a significant operating agreement with a particular foreign government that would have a material impact to their operating results, that entity is already required to disclose that information to the users of their financial statements. The provisions of the proposed ASU go well beyond the normal reporting obligations for exposure to material changes in operating assumptions.

If the FASB decides to move forward with the amendments to this proposed Update, we suggest that the FASB limit the scope to individually significant agreements. Because of the unique nature of these transactions, aggregation at any meaningful level would be difficult and provide little benefit to the users of the financial statements.

Question 2: Do you agree that the proposed disclosure requirements should be the same for both domestic assistance and foreign assistance? If not, please explain why and what proposed disclosure requirements you believe should differ. Are there any unique types of foreign assistance that should be considered? If so, explain why and be specific about any unique types of foreign assistance.

We agree that the proposed disclosure requirements should be the same for both domestic assistance and foreign assistance.

Question 3: Do you agree that the scope of the proposed amendments should not exclude government assistance agreements that are within the scope of Topic 740, Income Taxes? If not, explain why.

No. We believe the amendments should specifically exclude *all* income-tax-related assistance. The existing disclosure requirements under ASC 740 are adequate. Complexities of operationalizing the disclosures for income-tax-related items include the following:

- The requirements under the proposed ASU may create a false comparison against a theoretical system within the governments. To disclose the value of government assistance, companies need to maintain a set of “proforma books” as if no government assistance were granted. This presents practical difficulties for several reasons:
 - Tax jurisdictions choose different strategies. Some impose low statutory tax rates. Others impose high rates meanwhile grant tax breaks (which could be in the form of government assistance). The operations of different avenues for governments to collect tax are dynamic. It can be very difficult to predict the overall impact of a government assistance since it is not an isolated element.
 - To obtain government assistance, companies quite often need to meet certain requirements, including, but not limited to, deploying certain levels of capital investment and increasing/maintaining a certain size of workforce in a jurisdiction. On one hand, it can be very difficult to appraise the value with numerous moving parts. On the other hand, to quantify the value of the government assistance without considering the potential expenditures could be misleading. In addition, without the incentives, a taxpayer may not make the investment.
 - It is not clear if transfer pricing agreements (such as Advanced Pricing Agreements) are within the scope of the proposed ASU. If yes, it can be very

difficult for taxpayers to judge what the transfer pricing computations would be without the agreements.

- We would have to build and operate a worldwide process/system to collect and track information from large amount of subsidiaries located in many different countries. This will be costly and time consuming.
- We would have to perform separate calculations that reflect our circumstances without the incentives, which would be a theoretical construct and could be very difficult to audit and time consuming. These calculations will have to be manually performed and will increase staffing burdens.
- If it is likely that a company's income tax expense may be materially affected by the loss of material government assistance, the company's forecasted effective tax rate would have reflected the change. It appears that the disclosures required by the proposed ASU (if not otherwise required under ASC 740) would not provide additional useful information.

Question 5: Are the proposed scope and disclosure requirements operable and auditable? Do your existing information sets and systems, internal controls, and so forth capture the information required to be disclosed by the proposed amendments? If not, which aspects of the scope or disclosures pose operability, auditability, and/or cost issues and why?

No, the proposed scope and disclosure requirements are not operable and auditable as our existing information systems and internal processes do not currently capture the information required to be disclosed by the proposed amendments. The scope and disclosures do pose operability, auditability, and cost issues to implement and operationalize; please refer to our responses to Questions 3 and 6. Many of the issues we identify in the response to Question 3 relative to income taxes would also be applicable to other types of government assistance.

Question 6: Do you agree that an entity should be required to disclose, unless impracticable, the amount of government assistance received but not recognized directly in any financial statement line item? If not, explain why.

No, we do not agree that an entity should be required to disclose, unless impracticable, the amount of government assistance received but not recognized directly in any financial statement line item.

We are concerned that costs of implementing the necessary processes and controls to 1) gather the information needed for the proposed disclosure, or 2) determine that quantifying the assistance is impracticable, greatly outweigh the benefit of this disclosure, if any, to users when analyzing an entity's financial results and prospects for future cash flows.

We believe in most cases, an entity will determine that it is impracticable to estimate the government assistance not recognized directly in the financial statements due to the complexity of the calculations. However, in order to arrive at the impracticable conclusion, an entity may have to incur costs and a significant amount of time to gather the information that is available and possibly engage third-party experts. In addition, the decision of whether or not it is impracticable to estimate the amount of the government assistance received but not recognized will involve significant judgment and will be very difficult to audit.

For example, measuring the value of a tax benefit by comparing to statutory tax rates could generate a value that does not reflect the “true” value of the benefit. If a U.S. company pays a reduced income tax rate in foreign Country A, but the U.S. company repatriates its earnings from Country A, no benefit exists in U.S. company’s financial statements as it recorded a foreign tax credit for the taxes paid to Country A. To further illustrate the complexity of the calculations, let’s assume that the U.S. company recorded a valuation allowance for some portion of its unused foreign tax credits. Should the U.S. company consider the valuation allowance in assessing the value of the reduced income tax rate which actually results in a detriment?

Again, we believe attempting to value government assistance that results in tax benefits creates a false comparison to a theoretical tax system which does not exist.

Question 7: For preparers, are there any restrictions (legal or otherwise) that exist in government assistance agreements that would preclude an entity (for example, confidentiality or proprietary reasons) from disclosing the information required by the amendments in this proposed Update? If so, specify what those restrictions are, whether they relate to foreign or domestic assistance, and which proposed disclosures cause concern and why.

Because we do not currently have a process to collect this information, we cannot answer this question with certainty. Regardless of whether there is an explicit confidentiality restriction on the disclosure of an agreement’s terms, there could be an implicit restriction due to the mutual benefits of confidentiality on both parties’ future interests.

Question 9: The proposed amendments would not amend Topic 270, Interim Reporting, to add any specific interim disclosure requirements. Instead, required interim disclosures about government assistance would be limited to material changes occurring since the most recent annual period. Should the proposed amendments include additional interim disclosure requirements? If so, what disclosures do you think should be added and why?

We agree that no additional interim disclosure requirements should be added.

Question 10: Do you agree that the amendments in this proposed Update should be applied to all agreements (a) existing at the effective date and (b) entered into after the effective date with retrospective application permitted? If not, explain why.

We believe that the amendments should only be applied to agreements entered into after the effective date. This will allow us to ensure that future agreements that will be subject to these disclosure requirements contain provisions that allow us to make the required disclosures. If existing agreements contain confidentiality provisions, a disclosure requirement could put us in a legal conflict.

Question 12: How much time would preparers need to implement the proposed amendments? Should the amount of time needed to implement the proposed amendments by entities that are not public business entities be different from the amount of time needed by public business entities?

As a multinational company with legal entities in over 80 jurisdictions, we anticipate implementation would take a significant amount of time. Challenges include:

- Designing a global reporting process and relevant controls
- Educating a global workforce
- Gathering the necessary information to evaluate for disclosure
- Calculating value and making practicable/impracticable determinations
- Testing controls
- Drafting disclosures
- Gaining alignment with auditors

In order to meet the disclosure requirements, our company will need to collect information from more than 200 subsidiaries located in more than 80 countries. The tasks to identify relevant government bodies in many different countries and relevant arrangements falling into the proposed requirement, determine appropriate unit of account and aggregation, and reach agreement with auditors are difficult, costly and time consuming. If the proposed ASU were to be implemented, we suggest additional guidance be provided to define “government”. Considering the large number of varieties of organizations that exist, especially in foreign countries, the potential for uncertainty exists.

If the final ASU limits disclosure to individually significant arrangements, we suggest the effective date allow public entities at least two complete years for implementation. More time will be needed if entities must evaluate all arrangements.

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