Lilly

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Letter of Comment No: 69
File Reference: 1201-100
Date Received: 9-8-04

Ms. Suzanne Q. Bielstein
Director of Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference 1201-100

Dear Ms. Bielstein:

Eli Lilly and Company appreciates the opportunity to comment on the FASB's Proposed Statement of Financial Accounting Standards, *Fair Value Measurements* (the "ED"). Our response includes a summary of our overall concerns and responses to Issue 2 regarding valuation techniques and Issue 11 regarding fair value disclosures.

We support the Board's effort to provide increased consistency and comparability in fair value measurements and disclosures about fair value. We believe the standardization of the fair value guidance that currently resides in many different pronouncements will result in improved clarity and consistency of fair value measurements. Unfortunately we feel the financial statement disclosures required by the ED are unduly burdensome and provide little, if any, incremental benefit to the reader of the financial statements. We are particularly opposed to applying the disclosure requirements on an interim basis. We are also concerned about including the effect of an entity's credit standing on the measurement of its liabilities. Finally, we have significant concerns about the reliability and relevance issues related to fair value information that are not included in the initial phase of this project.

Valuation Techniques

Issue 2: This proposed Statement would clarify and incorporate the guidance in FASB Concepts Statement No. 7, Using Cash Flow Information and Present Value in Accounting Measurements, for using present value techniques to estimate fair value (Appendix A). Is that guidance sufficient? If no, what additional guidance is needed?

We agree that most of the guidance provided in FASB Concepts Statement No. 7 (CON7) regarding present value techniques is sufficient. We are, however, opposed to reflecting the effect of an entity's credit standing on the fair value of its liabilities in the entity's financial statements. This issue is described in paragraph 86 of CON7, "In their view, a fresh-start

measurement that reflects changes in credit standing produces accounting results that are confusing. If the measurement includes changes in credit standing, and an entity's credit standing declines, the fresh-start measurement of its liabilities declines. That decline in liabilities is accompanied by an increase in owners' equity, a result that they find counterintuitive."

Paragraphs 83 through 88 of CON7 were not incorporated into the ED. Although we do not believe those paragraphs adequately provide the rationale necessary to include the impact of an entity's credit standing in the calculation of the fair value of its liabilities, we believe excluding this information in the ED is merely avoiding the controversial issue. We would expect to see this issue addressed in the ED with clarification as to why a bad thing (declining credit standing) produces a good thing (increased owners' equity and, possible, income).

Disclosure Requirements

Issue 11: This proposed Statement would require expanded disclosures about the use of fair value to remeasure assets and liabilities recognized in the statement of financial position. Appendix B illustrates those disclosures. This proposed Statement also would encourage disclosures about other similar remeasurements that, like fair value, represent current amounts. The Board concluded that those disclosures would improve the quality of information provided to users of financial statements. Do you agree? If not, why not?

No, we do not believe the expanded disclosure requirements proposed in the ED will provide information that is more useful to users of the financial statements. For example, dividing the assets and liabilities remeasured by quoted prices into two subcategories, "identical items" and "similar items" is excessive. The ED provides no basis for this disclosure. In addition, a breakdown of the various valuation models used to measure the fair value of assets and liabilities without quoted prices is excessive. Presentation of all of this required information in external financial statements will be time consuming and we question whether the cost is worth the benefit. We do believe the reliability of fair value measurements obtained from quoted prices is higher than those obtained from using valuation models. We would therefore suggest the disclosure be limited to two categories, "quoted prices" and "valuation models".

In addition, we are concerned about the Board's continued effort to increase interim disclosures in light of the short time period required for interim reporting. We do not believe the Board fully considered the additional strain these disclosures will place on compliance with interim reporting requirements, as well as the cost/benefit implications of these disclosure requirements. Changes in fair value information for many financial instruments can already be obtained from the Comprehensive Income Statement on a quarterly basis. Unless a company's method for remeasuring fair values of assets and liabilities has changed considerably or has been applied inconsistently since the annual report disclosures, we do not believe the interim disclosure of the fair value information proposed in this ED meets the cost/benefit test. Given that fluctuations in fair value have a relatively

insignificant impact on earnings for most companies, disclosures in quarterly financial statements do not seem necessary.

We appreciate the opportunity to express our views and concerns regarding the ED. If you have any questions regarding our response or would like to discuss our comments, please feel free to call me at (317) 276-2024.

Sincerely,

ELI LILLY AND COMPANY

S/Arnold C. Hanish
Executive Director, Finance and
Chief Accounting Officer