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Date: October 24, 2003

Re: File Reference #1025-200

Mr. Lawrence W. Smith
Director of Technical Application and Implementation Activities
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Letter of Comment No: 60
File Reference: 1025-200
Date Received: 10/24/03

Dear Mr. Smith:

Eli Lilly and Company appreciates the opportunity to comment on the Financial Accounting Standard Board's Exposure Draft, *Employers' Disclosures about Pensions and Other Postretirement Benefits*. As a large multinational company that creates and delivers innovative medicines that enable people live longer, healthier, more active lives, Eli Lilly sponsors nearly 50 pension plans and many other postretirement benefit plans

We understand the need for transparent accounting and disclosure of public companies to benefit the users of financial statements. We support the FASB's efforts to provide more meaningful financial reporting to the readers of financial statements. However, we do have concerns regarding the proposed accounting standard, *Employers' Disclosures about Pensions and Other Postretirement Benefits*:

- Compiling the disclosures required would substantially increase the time and cost of preparing our year-end disclosures.
- Much of the new information required would be of limited value to financial statement users and could even be misleading in some circumstances.
- The proposed effective date for fiscal years ending after December 15, 2003 is much too aggressive given the lateness in the year and the preparation required for the annual report and corporate closing process. The standard effective date should be delayed for one year.

Issue 1 – Plan Assets:

We believe that the current disclosure required under FAS 132 provides the relevant information regarding the financial results of plan assets. The additional proposed disclosures on plan assets by broad asset categories will add little value to the financial statements and likely will increase confusion.

Within each of the broad asset categories, there is likely a wide range of market risk including different investment grades, industries and countries. Because of this, the target allocation percentage will likely be misleading.

We also do not believe that providing the expected long-term rate of return by category is helpful. In fact, it will create confusion among users of financial statements. This disclosure creates the impression that we set the expected long-term rate of return for the portfolio as the average expected rate of return for each category, weighted by the actual allocation on the measurement date. This does not reflect how we set this assumption. We set this assumption based on the portfolio as a whole taking into account the benefits of diversification and rebalancing. It is not possible to reflect this by category without misleading financial statement users about our true expectations by category.

Since we offer pension and other postretirement benefit plans in many countries, these additional disclosures will be onerous to provide and very difficult to analyze. Local regulations in many countries dictate the plan investment options and require the use of local trustees. Obtaining detailed information on a timely basis from domestic and overseas trustees will be difficult, at best, especially considering the accelerated SEC requirements for annual reports. Therefore, we suggest these proposed disclosures on plan assets be removed from the final statement.

We believe providing more information to the readers of the financial statement regarding plan assets would be useful. We suggest a narrative disclosure be required to explain the approximate asset allocation over the broad categories of assets and how this asset allocation supports the long term expected rate of return.

Issue 2 – Defined Benefit Pension Plan Accumulated Benefit Obligation:

We support this disclosure. We already analyze this information and believe that it will be helpful to users of the financial statements to monitor the funded status of the plans and anticipate any changes in the minimum liability.

Issue 3 – Cash Flow Information:

We do not support the requirement to disclose a schedule of estimated future benefit payments included in the determination of the benefit obligation. Users of financial statements will find little value in this disclosure because it does not illustrate the total future benefit payments. It only shows the benefit payments associated with the PBO/APBO. Also, it does not allow the users to assess the sensitivity of the liabilities to the discount rate because the time period is too short. Additionally, our actuarial firm will need to modify their software to develop benefit payments on a PBO/APBO basis. We anticipate ongoing incremental fees to comply with this new disclosure. We do not believe the additional expense creates more value for the financial statement user.

We believe that users would benefit from increased disclosures on pension and other postretirement plan contributions as suggested in the Exposure Draft. However, we believe that the disclosure of management's best estimate of contributions for the next year should be limited

to the minimum funding requirements from local regulations. Discretionary contributions should not be required to be disclosed because this could lead to “second guessing” of management’s actual versus disclosed contributions. A company’s use of cash can vary significantly through a fiscal year. Discretionary contributions must compete with other uses of cash and can change dramatically depending on tax considerations, market conditions and other capital needs.

Issue 4 – Assumptions:

We support the additional disclosure regarding the key assumptions used to measure the benefit obligations displayed separately from the key assumptions used to measure the benefit cost and believe that this disclosure will help avoid confusion.

Issue 6 – Sensitivity Information about Changes in Certain Assumptions:

We agree that additional disclosure regarding the sensitivity information about hypothetical change should not be required. We support the view that this information could be misleading to financial statement users because several assumptions could change at one time as a result of economic conditions. The impact of individual assumption changes may not be linear.

Issue 7 – Measurement Date:

We do not support the disclosure of the nature of significant economic events or changes between the measurement date and the fiscal year-end. We use a November 30 measurement date for our retirement plans. One reason we use a date prior to year-end is to facilitate the timely completion of our financial statements. In practice under the current accounting guidance, we would restate if there were significant events occurring between the measurement date and the fiscal year-end. We would propose that this remain unchanged to facilitate the timely preparation of the financial statements.

Issue 8 – Reconciliation of Beginning and Ending Balances of Plan Assets and Benefit Obligations:

We do not support eliminating the reconciliation of beginning and ending balance of plan assets and benefit obligations. This disclosure provides a clear mechanism to help the users of financial statements understand the various elements that affect retirement plans. Most of this information is required in the proposed statement in a different format.

Issue 9 – Disclosures Considered but Not Proposed:

We agree that the various items listed under Issue 9 should not be required.

Issue 10 – Disclosures in Interim Financial Reports:

We do not support the proposed disclosures of pension expense by component in interim financial reports. This would require a disproportionate amount of detail regarding a single

expense item. However, we would support interim disclosure for any material change in net periodic pension cost or minimum required contribution.

Issue 11 – Effective Date and Transition:

The proposed effective date for fiscal years ending after December 15, 2003 is much too aggressive considering our instructions to our overseas affiliates have already been sent. Also, the Exposure Draft would require actuaries to calculate and provide data that is not routinely provided in an annual valuation and computer systems need to be rewritten to provide this data. Considering these reasons, we believe the Board should delay the effective date for one year.

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

Sincerely,

ELI LILLY AND COMPANY

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