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August 19, 2011

Ms. Mary Shapiro, Chairman
US Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: SEC Staff Draft on Consideration of Incorporating IFRS Into Financial Reporting System (May 2011)

Dear Chairman Shapiro:

Eli Lilly and Company (“Lilly”) appreciates the opportunity to comment to the Securities and Exchange Commission (“SEC”) on the Staff Draft for Incorporating International Financial Reporting Standards (“IFRS”) into the Financial Reporting System - Exploring a Possible Method of Incorporation. Lilly is a large, multinational pharmaceutical company, with presence in over 50 country jurisdictions, and creates and delivers innovative medicines that enable people to live longer, healthier, and more active lives.

Lilly continues to support a move to one global set of accounting standards. We commend the International Accounting Standards Board (“IASB”) and FASB’s (collectively the “Boards”) work to date on the major convergence projects and appreciate the thought and consideration that the SEC has taken in exploring a possible method of incorporation known as the Condorsement approach. Overall, we support the Condorsement approach of transitioning to IFRS over multiple years (5-7 years), rather than adopting a ‘Big Bang’ approach.

It makes sense that the proposed approach is a hybrid between convergence and endorsement based on how some jurisdictions have incorporated IFRS, but convergence continues to be a key factor in ensuring that IFRS standards are of high quality. While other countries have adopted IFRS, the U.S. has unique challenges that other countries may not have had to deal with, such as a legal, compliance (e.g. Sarbanes-Oxley) or regulatory environment. While there are merits to the proposal, we have concerns about some aspects of the proposal, such as:

- Whether the timeline is realistic and understanding what the end goal is,
- FASB’s perceived limited authority during the endorsement process, and
- The SEC’s consideration of an early-adoption option for U.S. issuers.

We question how realistic the timeline is in achieving the goal identified in the proposal; that U.S. listed companies would be able to assert that they are compliant with IFRS at the end of the 7-year period. Given where we are in the timeline for the convergence projects and their expected completion dates, if one were to assume that category 2 would require as much time as the current projects (from 2013-2015) and add the timing to address category 3 (after 2015), we are not sure how we can make this assertion of IFRS compliance at the end of the 7-year period and whether 2018 is achievable.

Based on the recent re-exposure of revenue recognition and leases exposure drafts and the additional work needed on financial instruments particularly with impairment, the completion of these projects will likely be well into 2012. While the Boards have not identified the topics for category 2 or the timing for their completion, for example, if the Boards were to restart deliberations on topics previously addressed in the Memorandum of Understanding or other joint projects such as income taxes, contingencies, intangibles, those projects could also take considerable time.

In the proposal, the SEC identifies category 3 as IFRSs not subject to standard setting, such as ASC 360 and IAS 16 Property, Plant and Equipment. While the proposal suggests that the standards in this category may not change, the FASB would still need to consider whether modifications and certain guidance would be needed to supplement the provisions (e.g. additional disclosures). The FASB would also need to determine the transition method (retrospective or prospective). This is just one example of the thought process the FASB would need to undertake for each topic in this category, all of which would require more time. Category 3 seems elusive and vague and the SEC should not underestimate the time it will take to identify and evaluate this category.

The point is when you add up each section of the timeline (for category 1-3), it could take up to 2017, 2018, or longer to fully vet all of the accounting topics for incorporation into U.S. GAAP. It is a lot to accomplish in 7 years. If the FASB was still evaluating standards up to 2017-2018, companies would find it challenging to present comparative information with a moving target, e.g. prepare to adopt a new standard while the standard has not been finalized.

In addition, although the effective dates for the major convergence projects have not been determined, if we were to assume different adoption dates for each project starting 2014, layered with additional adoption dates from category 2 and 3 topics to occur sometime after 2015, it would not take much to have a web of different accounting standards with different effective dates over the 5-7 year transition period. Investors may find it difficult to interpret and know in any given years which are the new or old standards. While companies have had to adopt new standards in the past, what makes this situation unique is the sheer number of new standards that companies will need to adopt in the future.

One way to alleviate the above problems would be for the SEC to consider reducing the number of years of comparative information. It would make it less confusing for investors, give companies more time to prepare (e.g. embed the changes at the transactional level of the ERP system), and provide more time for the SEC to finalize the Work Plan. We suggested this in a previous comment letter to the SEC regarding IFRS incorporation issues, and we continue to believe that receiving such relief would be meaningful for companies, particularly given the complexity of this Work Plan.

Another concern we have relating to the proposal is the limited authority FASB will have during the endorsement process. We agree on FASB's responsibilities on page 9 of the proposal with respect to its participation in the IASB's standard-setting process. While the Staff Draft states that the FASB would retain the authority to modify or add to the requirements of the IFRSs incorporated into U.S. GAAP, subject to an established incorporation protocol based on meeting a pre-established threshold, the proposal alludes that the likelihood of such changes occurring during the endorsement process would be "rare". We believe the "rare" threshold is too high and that more authority should be provided to the FASB in determining whether changes need to be made to the global standards prior to incorporation into U.S. GAAP. We are not proposing to allow the FASB to make frequent changes, but would support a process in which the FASB could make changes based on a thoughtful framework for endorsement.

While we should continue to achieve full convergence and not create a U.S. flavor of IFRS, the reality is that there will be differences of opinion on accounting principles and the FASB will need to have some flexibility or mechanism to accommodate those differences. One only needs to look at the past two years on the current major joint convergence projects. For example, the Boards have not been able to agree on various aspects of the financial instruments (“FI”) project, mainly with the impairment model, and also with differences in the classification and measurement and hedge accounting. Even if the FASB provides input and assists the IASB in the standard-setting process, we question how much influence the FASB really would have if the expectation was that it would be “rare” for them to change the standard issued by the IASB.

As other jurisdictions have adopted IFRS, while most countries want to maintain the objective of adopting IFRS without variation, in reality, many added a “local country” flavor to protect their interests. The IASB has done a good job receiving input from all their constituents including those of the U.S., however, the IASB’s final decision would need to take into account and would ultimately be influenced by global representation. By limiting the FASB’s influence, this approach may not serve the best interest of the U.S. companies and investors. For example, some areas of concern include contingencies, given our litigious society, and deferred tax on share-based compensation. For share-based compensation, most countries outside the U.S. generally do not offer equity-based awards, therefore, it is not as much of an issue for them.

A third area of the Staff Draft that we wanted to provide input on is whether the SEC should provide an early-adoption option for U.S. issuers. We understand that the details surrounding this option were beyond the scope of the Staff Draft and were not specifically addressed. We are supportive of the SEC giving companies the ability to make the choice. Companies have different structures (e.g. global footprint, resources), and are also at different stages in term of their IFRS readiness, but the option to adopt early would provide flexibility to those who want to convert. There are U.S. multinational companies that have substantial operations overseas and have been working to streamline their local reporting for the countries that are on IFRS or IFRS-like. They may be in a better position to convert at one time rather than over the 5-7 year transition period. They may view adopting at once provides more benefit to the company and the investors.

If a company were to adopt early, we understand that one of the biggest concern is comparability. We challenge this notion as foreign private issuers using IFRS are already allowed to submit IFRS financial statements to the SEC without a reconciliation. There is also the added complexity of the transition for category 1-3 topics and their unknown timing. If the SEC were to allow early adoption, they would need to decide at what point companies could adopt and the criteria for adopting early. We hope that the SEC takes a fresh look at these two points, compared to their proposal several years ago when they identified certain criteria, but companies did not know if they qualified or were ‘on the list’ to be able to adopt early. In addition, that proposal included onerous reconciliations that would have been required for early adopters. In other words, there was not much incentive or benefit for companies to take this option.

We realize that conversion or adopting IFRS for U.S. listed companies is going to be very difficult, however, since inception of the SEC concept or vision in 2007, there has been a lot of uncertainty from the SEC about the commitment and timeline to adopt IFRS. Many companies started on an IFRS project but have since stopped or are winding down their activity given the uncertainty of a date certain of adoption. As noted above, we commend the SEC for the thought put into the proposal, however, it is

not clear what the end goal is at the end of the 7-year period. Is it complete convergence (100%), something less than that (e.g. 80%), or is the SEC planning to continue to extend the timeline until the goal or convergence is achieved. In other words if at the end of the 7-year period, the Boards or the FASB are not done with incorporating IFRS into U.S. GAAP, will the SEC extend the timeline until the process is done? For companies who started this process since its inception in 2007, it will become a 12-year commitment, assuming an end point of 2018.

Companies realize the importance of moving to one global set of accounting standards and will deal with the changes if they know what the end goal is in order to plan appropriately. Given the current state of the economy where companies are streamlining their operations and reducing staff, there are even less resources available to handle such a monumental change. Therefore, it will be important to have a well thought out implementation plan that will serve the needs of the stakeholders and investors, and at the same time provide a practical and cost effective way to incorporate IFRS into U.S. GAAP.

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

Sincerely,

S/Arnold C. Hanish
Vice President, Finance
and Chief Accounting Officer