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

www.lilly.com

August 15, 2017

Brent J. Fields, Secretary
Securities and Exchange Commission
100 F Street NE
Washington, D.C. 20549-1090

Re: File Number PCAOB-2017-01

Dear Mr. Secretary:

Eli Lilly and Company ("Lilly") appreciates the opportunity to comment to the Security and Exchange Commission ("SEC") on the proposed PCAOB standard on auditor reporting, File Number PCAOB-2017-01 *Filing of Proposed Rules on The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion* ("Proposal"). Lilly is a multinational pharmaceutical and animal health company, with more than 200 legal entities in over 80 jurisdictions.

Lilly understands the PCAOB's objective is to revamp the existing Auditor's Reporting Model in an effort to "increase the informational value of the auditor's report to promote the usefulness and relevance of the audit and the related auditor's report." Lilly provided comments in 2013 and 2016 directly to the PCAOB.

Critical Audit Matters (CAMs)

We believe the proposed scope of CAMs is inconsistent with the US regulatory reporting framework. According to the framework, management is responsible for financial statement and related disclosures. According to the Proposal, CAMs should be selected from "any matter that was communicated or required to be communicated to the audit committee." This sets the auditor up to be responsible for disclosing information about the company that is not previously disclosed. Many companies, us included, are concerned that the auditor's report would disclose information not otherwise required to be disclosed by the company. The explanatory note in the Proposal articulates the auditor is "not expected to provide information about the company that has not been made publicly available". But, the significant caveat "unless such information is necessary to describe the principal considerations that led the auditor to determine a matter is a CAM" instructs the auditor to do exactly that. To the extent the Proposal compels the auditor to disclose information not otherwise required to comply with U.S. GAAP, the company has lost authority over issue reporting and diminished the regulatory authority of the SEC.

We are most concerned about the potential for the auditor to disclose information in their report that the company is not required to disclose by the SEC or FASB, making the auditor the original source of the information. The auditor could identify a CAM around a transaction that has not yet been recorded in the financial statements by management due to timing or facts and circumstances of the item (e.g. restructuring, product returns reserve, impairment, etc.). Based on the facts and circumstances, restructuring charges may not be required, under accounting standards, to be recorded until the following year; however, the auditor may disclose this item as a CAM in the prior year audit report if it meets the CAM criteria. Disclosing this as a CAM would make it public information before the company discloses the information to those affected and the public. Additionally, even though the company may disclose information about legal reserves, for example, the auditor's report may disclose details that are currently not required to be disclosed like specific cases and liability balances.

It seems counterintuitive that a company would need to disclose information not because of an accounting standard but because of the potential to appear as a CAM. The Proposal could lead to tension from the auditor pushing the company to disclose information because the auditor will include it in the auditor's report. The company should not be burdened with de facto disclosure rules arising from the auditor's report. The implementation of the Proposal may interfere with how management complies with SEC reporting requirements. We suggest the Proposal be modified to lessen the potential to interfere with SEC reporting requirements.

We believe CAMs should be limited to only matters already disclosed in the critical accounting policies section of the Management's Discussion and Analysis. There is already a robust process that exists between management and the auditors as to the identification of, and reporting on critical accounting policies and estimates. CAMs by their definition should not differ from those items. This allows the majority of information disclosed to be provided by management.

If the PCAOB requires a broader scope for CAMs than matters already disclosed in the critical accounting policies, CAMs should be limited to matters that are material to the financial statements. The Proposal requires that any matter that "relates to accounts or disclosures that are material to the financial statements" be included in the definition of CAMs. We believe this could have an adverse impact on companies, auditors and financial statement users. It is not sufficiently clear how an entity would make an assessment of whether a matter is included in this definition. The Proposal attempts to clarify the meaning through explanation and example. In our opinion this attempt does not provide sufficient clarity. We suggest, at a minimum, simply limiting CAMs to matters that are material to the financial statements.

The proposed effective date of the new standard will require significant effort and comes at a time when we are implementing other significant changes (e.g. revenue recognition, lease accounting, pension accounting). The implementation of these changes is consuming a very large number of resources. The SEC should consider the proposed implementation dates in light of the other changes being implemented.

The PCAOB received many comments during the development of the Proposal. These comments raised many risk areas. If the SEC decides to approve the Proposal, it is critical that the SEC and the PCAOB take steps to address the risk areas. We encourage both the SEC and PCAOB to actively monitor the implementation and risks and take action to address concerns.

Conclusion

Lilly appreciates the PCAOB efforts to improve the auditor's report and solicit input. However, we still have significant concerns that the auditor is being asked to share in the responsibility for disclosing company information.

We believe there is still a significant opportunity to clarify definitions which should lead to an efficient implementation that will not cause confusion with SEC reporting regulations. Additionally, the Proposal's guidance remains unclear and will be confusing to implement. We urge the SEC and the PCAOB to conduct a thorough post implementation review to address issues. We also urge the SEC to carefully consider the proposed implementation timing of this new standard considering several other initiatives.

We appreciate the opportunity to express our views and concerns regarding the concept release. If you have any questions regarding our response, or would like to discuss our comments further, please call me at [redacted]

Sincerely,

ELI LILLY AND COMPANY

/s/ Donald A. Zakrowski

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