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

www.lilly.com

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Ms. Elizabeth M. Murphy, Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

Re: **File Number 4-607**
Incorporating IFRS into Financial Reporting System for U.S. Issuers – Investor Education

Dear Ms. Murphy:

Eli Lilly and Company ("Lilly") appreciates the opportunity to comment to the U.S. Securities and Exchange Commission's ("SEC") ongoing consideration of incorporating International Financial Reporting Standards ("IFRS") into the financial reporting system for U.S. issuers, specifically related to investor education and readiness. 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.

Since mid-2008, Lilly has been working on an IFRS project to evaluate the differences between U.S. GAAP and IFRS and the conversion impact to the company. This included assessing the differences at the consolidated and affiliate level, particularly with overseas affiliates that had to convert to IFRS for local statutory purposes.

We support the SEC's proposed move to a single set of global accounting standards. We believe that this move will enhance comparability, allow easier access to foreign debt markets, and streamline and reduce financial reporting and costs. IFRS is positioned to be the set of global standards due to its broad acceptance as the basis for accounting standards in over 100 countries.

We understand that before the SEC makes a final determination of whether to mandate IFRS for U.S. issuers, they will evaluate certain aspects of a Work Plan including investor education and readiness. Investor readiness depends, in part, on the following factors:

- Existing knowledge of current IFRS;
- Extent of the current accounting differences between U.S. GAAP and IFRS and the potential residual differences after completion of the major convergence projects;
- Lead time and resources needed for investors to understand IFRS; and

- Willingness and urgency for investors to learn IFRS.

The most critical factor is a date certain, which relates to the last point referenced above of the willingness and urgency to learn IFRS. This issue is not limited to investors, but is also the pivotal point for many U.S. listed companies in determining when to move forward on their IFRS conversion project. Another important factor is the extent and timing of the convergence projects. We will address these points in more details below.

1. <u>U.S. Investors' Current Knowledge of IFRS and Preparedness for Incorporation of IFRS</u>

Investor's Current Knowledge and Comparability of Financial Statements

Investor's current knowledge of IFRS depends on the type of investor, whether they are institutional investors ("analysts") or individual investors ("individuals"). Most of the questions directed at our Investor Relations department come from analysts and not individuals, therefore, our views in this letter are more from an analyst's perspective.

Analysts use various data to compare companies within the same industry. Some may place more reliance on the overall financial statements, while others may focus on other factors such as a company's cash flow, overall company strategy or the strength of their research and development pipeline, which is specific to the pharmaceutical industry. For analysts that focus on financial statements, they would prefer to have one set of accounting standards, provided it was consistently applied and as long as they understood the differences for comparability purposes.

Generally, we believe that analysts are more likely to be familiar with IFRS than individuals. Depending on the industry, some analysts already evaluate companies that are on IFRS. For example, four of the major global pharmaceutical companies are based in Europe and have been preparing IFRS financial statements since 2005. Under the previous SEC requirements for Foreign Private Issuers ("FPI"), these companies were required to reconcile from IFRS to U.S. GAAP. The reconciliation provided insight to analysts by helping them understand the accounting differences so that they could adjust their U.S. GAAP models that compared companies within the industry. Although the reconciliation requirement was lifted by the SEC in November 2007, the analysts had several years of reconciliation data and therefore were likely familiar with the differences.

Not all analysts cover a global footprint. For example, they may only cover U.S. companies. While they may not have IFRS experience, they may have access to other internal company resources, such as other analysts or accounting experts. Also, they can reach out to analysts from companies that are based in Europe that have extensive IFRS knowledge. Analysts or companies adopting IFRS can leverage from the lessons learned relating to the European conversion.

Another tool that will continue to enhance comparability is the use of XBRL. As more of the financial statement items are tagged, analysts will be able to better compare across companies and industries. In the future, this will include U.S. GAAP changes and IFRS reconciliation items.

IFRS Education Resources

Prior to starting the IFRS project in 2008, few people within Lilly had IFRS knowledge. The ones that did were from our overseas affiliates who were reporting IFRS for local statutory reporting purposes. We view a parallel in the education process that analysts will need to take, based on our experience of the people that have worked on the IFRS project.

Given that the European listed companies were required to convert to IFRS in 2005, all of the Big 4 accounting firms ("Big 4") had numerous publications varying from high level summaries of the accounting differences to very detailed interpretations by accounting standard. Since 2005, the Big 4 were diligent in updating their publications as the standards changed. We expect that they will continue to enhance the publications as U.S. companies and auditors obtain more experience in interpreting and applying IFRS. Education was not limited to the use of publications. There were a lot of IFRS technical accounting conferences and webcasts that provided training. The AICPA is also creating a web-based IFRS program that will provide a certificate upon completion and universities have started to incorporate IFRS and convergence projects as part of the accounting curriculum.

We also networked with other companies that were on IFRS as well as those that were actively working on IFRS projects in order to share knowledge about interpretation and application issues. From talking with other U.S. multinationals, although many have not moved forward on an IFRS conversion project, a lot of companies hired one of the Big 4 to complete their IFRS assessment that varied in scope from high level to detailed level.

In terms of future analyst education, we will use a similar process for communicating and training analysts on U.S. GAAP changes as we have in the past. Our Investor Relations department typically will obtain adequate information on the accounting changes so that they can field questions from analysts and investors. Depending on the breadth of the change, we will also hold separate question and answer sessions with them. Once the SEC determines the date certain, we expect that analysts and the SEC will want to understand, at some point before the first filing of IFRS financial statements, some of a company's conversion impact, similar to what was asked from the European companies and other companies in countries that will be adopting IFRS in the next few years. The analyst's education process will be a joint effort, with heavy reliance on companies.

Convergence Projects

Another important factor that we cannot ignore in considering analyst and individual readiness is the extent and timing of some of the major joint convergence projects such as Revenue Recognition, Financial Instruments, Leases and Financial Statement Presentation. While the convergence projects may eliminate many of the differences between both GAAPs, it is sometimes difficult to differentiate the effort needed for investor education relating to the U.S. GAAP changes versus an IFRS conversion in isolation. In other words, if most of the differences were eliminated from the convergence projects and if an investor already had to understand the U.S. GAAP changes, minimal educational would be needed for an IFRS conversion. We provided further comments with regards to the timing of the projects in section three of this letter.

2. Investors' Education Processes on Changes in Accounting Standards

As noted in the previous section, analysts can learn about IFRS by using the Big 4 publications. As the standards continue to change, the Big 4 will continue to update their literature. Our experience with analysts on their awareness of the changes in accounting standards ranges from minimal to knowledgeable. We find that most have minimal knowledge, until the final standard is issued and there is a date certain. This was evidenced in a recent discussion with an analyst regarding the current joint revenue recognition exposure draft.

3. Extent of, Logistics for, and Estimated Time Necessary to Undertake any Necessary Changes

The current SEC proposal adoption date is 2015. We encourage the SEC to consider extending the date by another year, 2016, as this would give companies adequate lead time to assess and prepare for the conversion including incorporating the major convergence projects changes. In other words, if the SEC were to vote at the end of 2011, it would give companies five years to prepare their first IFRS financial statements, or two years before their opening IFRS balance sheet (e.g., December 31, 2013). Once companies have assessed and have started to incorporate IFRS, they will be in a better position to communicate the IFRS conversion implications to the investor community.

Since retrospective application will be required for the convergence projects and depending on the magnitude of the changes, a company may have to maintain two sets of books (old U.S. GAAP and new U.S. GAAP) for reporting historical comparative periods. Companies will need to have considerable resources and IT capabilities in order to maintain multiple sets of books. The timing will coincide and will need to be integrated as part of the IFRS conversion project. We, therefore, recommend that the SEC align the effective dates of the convergence projects with the IFRS opening balance sheet so that companies can effectively run parallel reporting.

The SEC should not underestimate the time it will take for large multinational companies with different IT systems around the world to be prepared for these changes. In order to be ready for parallel reporting whether for IFRS or for the convergence projects, companies will need a long lead time to develop and test the IT systems. There a lot of complexities in trying to align multiple systems around the world. In addition, given the major changes, companies will want to embed the changes within the local affiliate books, rather than to post adjustments at the top or consolidated level. We want to avoid the same mistake the European listed companies made when they converted to IFRS in 2005, when they relied heavily on top side adjustments.

As the SEC continues to evaluate various aspects of the Work Plan, we encourage the SEC to strongly consider reducing the number of years of comparative information from three years to two years. Generally speaking, analysts are less concerned with the historical information going back two years.

They review prior year data and place more focus on the company's future outlook including cash flow and the research and development pipeline.

We wanted to reiterate that while we understand the importance of establishing an education infrastructure and the lead time required for an IFRS conversion, companies, investors and educators will not move forward until there is a date certain.

We appreciate the opportunity to express our views and concerns regarding IFRS investor education and readiness. 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