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November 8, 2010

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

Re: Release Nos. 33-9134; 34-62700; File No. 4-608:
Solicitation of Public Comment on Consideration of Incorporating IFRS into the Financial Reporting System for U.S. Issuers

Dear Ms. Murphy:

Eli Lilly and Company ("Lilly") appreciates the opportunity to comment on the U.S. Security and Exchange Commission's ("SEC") request for comment, "Consideration of Incorporating International Financial Reporting Standards ("IFRS") into the Financial Reporting System for U.S. Issuers." Lilly is a large, multinational company that creates and delivers innovative medicines that enable people to live longer, healthier, more active lives.

We support the SEC's efforts to make a determination by 2011 regarding whether to incorporate IFRS into the U.S. financial reporting system. As part of this effort, we believe that this will bring us closer to a date certain to allow companies adequate lead time to implement these changes.

1. Contractual Arrangements

In general, companies will need to review all contractual agreements that reference U.S. GAAP to determine the impact of an IFRS conversion, the best approach for handling the contract changes and the lead time required to implement the changes. For some contracts such as third party royalty arrangements, will companies be able to obtain a general waiver in which U.S. GAAP becomes or equals IFRS. For other contracts, a different approach may be needed such as compensation plans.

Compensation plans include executive compensation, equity programs, bonus, etc. Some equity award programs are based on U.S. GAAP metrics such as EPS. One of the types of plans to consider that will require more thought are equity programs that are based on EPS that vest over multiple years, particularly if the vesting period straddles over the IFRS adoption date (e.g. December 31, 2015 based on the current SEC Roadmap).

One of the questions that arise is how to bridge the gap in the metrics pre and post IFRS adoption. For example, if a two-year award is issued in January 2015 and vests at the end 2016, the compensation committee would need to approve the metrics for that particular award prior to issuance. At the end of 2016 once the company is on IFRS, if EPS is materially different due to the accounting changes as a result

of converting to IFRS, the company would need to determine how to account for or determine the payout of that award given the accounting changes. Would they need to exclude the effect of the accounting change to determine the payout? And if so, backing out the IFRS adjustment would be difficult since the company would no longer be maintaining U.S. GAAP financial results at the end of 2016.

In addition to determining the payout, there is also a tax aspect to consider. Treasury Regulation 1. 162-27(e)(2) requires that equity plans for an executive be determined based on pre-established performance criteria and that if a discretionary upward adjustment is made, the award could be considered non-deductible. Companies should ensure that additional language is included in their plans for adjustments related to the accounting change in the event that the EPS were to increase. Again, this may be difficult to support unless the company is tracking U.S. GAAP financial results in 2016 or tax regulators modify the tax code.

2. Corporate Governance Requirements

We ask that the Commission to consider the U.S. global income tax consequences for U.S. taxpayers and tax authorities at multiple levels of the U.S. legislative system. The time to transition and potential cost to implement IFRS for tax departments should be considered.

Currently enacted tax provisions at the Federal, State, and Municipal levels contain provisions that specifically reference U.S. GAAP. Absent legislative or other regulatory action to change these provisions and to allow for the use of IFRS-based financial data, U.S. GAAP could remain the method of accounting for Federal, State, and Local tax. This could potentially require companies to keep two sets of books, IFRS and U.S. GAAP, even after U.S. GAAP is no longer required by the SEC. For example, U.S. multinational taxpayers are required to file Form 5471 for reporting of Controlled Foreign Corporations ("CFCs") with the Internal Revenue Service ("IRS") and calculate Earnings & Profits ("E&P") for each legal entity. The IRS currently requires the application of U.S. GAAP to determine Tax E&P. Absent IRS assurance that IFRS would be accepted under these circumstances, a company could be required to maintain IFRS books for SEC reporting and U.S. GAAP books on a permanent basis. The ongoing cost and time of permanently maintaining several sets of books would be disadvantageous to U.S. Companies from a global perspective.

Additionally, if the taxpayer is following its book accounting method for U.S. federal tax purposes and this book method changes (i.e., revenue recognition, leases, etc.), then IRS consent (Form 3115) is required to obtain audit protection. Unless the IRS acknowledges IFRS as an approved method of accounting for automatic consent, approval is not guaranteed. Taxpayers can only assume that the IRS or other branches of tax administration will accept IFRS financial book accounting as the basis for tax where it is not explicitly stated in the tax regulations. Furthermore, it is uncertain whether the IRS will require a consent form for each accounting change or allow a comprehensive consent form for all accounting changes under IFRS. If the former, this will require additional resources and time to file potentially hundreds of consent forms. However, if the latter option is allowed whereby each method is not stated separately, will the IRS guarantee audit protection for all the method changes made during

the year? Or, will the IRS later, upon audit, determine that some of the IFRS accounting methods will not be allowed for tax purposes. Regardless of the option, taxpayers will need time to determine which tax methods to use to stay competitive, to incorporate processes around these new methods, to provide training globally, and determine the appropriate timing to file the requests.

We understand that Last In, First Out ("LIFO") method of inventory has been heavily debated, not only from an IFRS adoption standpoint but also as a potential revenue raiser for the U.S. Treasury. IFRS prohibits the LIFO method of accounting. The Internal Revenue Code has a conformity requirement asserting that if LIFO is applied for tax purposes, the taxpayer is required to use this method for financial reporting. Since IFRS does not allow LIFO for financial reporting and absent changes to Internal Revenue Code, taxpayers will not have the ability to apply LIFO. For many companies across several industries, this issue has a significant cash tax impact.

We ask the Commission to consider these unintended consequences and permit legislators and other regulatory bodies the necessary time to thoughtfully consider and address the effects of IFRS adoption. Planning effectively and allowing time for the Commission and legislators/regulators to work together would ease companies' tax requirements and create a smoother transition to IFRS. Incorporating these changes will be costly and will require adequate lead time to implement the additional compliance, processes, and technology solutions needed to transition to IFRS.

We appreciate the opportunity to express our views and concerns regarding the Consideration of Incorporating IFRS into the Financial Reporting System for U.S. Issuers. 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