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Date: September 26 , 2008

Sir David Tweedie
Chairman, International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Re: Discussion Paper: Preliminary Views on Amendments to IAS 19 *Employee Benefits*

Dear Sir David:

Eli Lilly and Company appreciates the opportunity to comment on the International Accounting Standards Board (IASB) Discussion Paper, *Preliminary Views on Amendments to IAS 19 Employee Benefits,* (hereafter referred to as the "Discussion Paper"). As a large, multinational company that creates and delivers innovative medicines that enable people to live longer, healthier, more active lives, Eli Lilly and Company sponsors many various benefit plans, including many pension and postretirement benefit plans.

We support the IASB's efforts to provide more meaningful financial reporting and transparency to the readers of financial statements. We acknowledge that the accounting for defined benefit promise plans (hereafter referred to as "benefit plans") are complex and may cause confusion for readers of financial statements. In addition, we support the goal of achieving more consistency between U.S. and International accounting standards. However, we do have concerns regarding with the proposed accounting requirements described in the Discussion Paper regarding the recognition and of defined benefit promises.

We acknowledge that the current IAS accounting requirements of allowing several approaches to recognizing the costs of defined benefit promises creates confusion and inconsistency in financial reporting. We agree with the IASB's proposal to move to a single approach for presenting these costs; however, we do have the following comments regarding each of the presentation approaches proposed in the Discussion Paper:

- Approach 1: We disagree with the approach of presenting all changes in the defined benefit obligation and in the value of plan assets in the profit/loss statement in the period in which they occur. While we acknowledge the IASB's desire to move to a fair value financial reporting model for defined benefit promises, we do not believe that this is an appropriate accounting model for these benefit plans. We struggle to understand how an investor will benefit from reporting through operations a decline in pension plan assets of 3 percent one quarter and an increase of 5 percent the very next quarter. The result of this approach will be significant volatility of a company's profit/loss statement for company's that have defined benefit promise plans compared to company's that have straight defined contribution plans. We believe that these ups and downs in the market have realized fairly consistent returns over the long-term. The assets and liabilities related to defined benefit promises are long-term in nature and we believe it is more appropriate to account for the erratic short-term movements over a longer period. We do not believe that the volatility resulting from a "mark-to-market" approach would be meaningful to readers of financial statements, and could prove to be even more confusing. If Approach 1 is selected as the recognition approach, we are concerned that defined benefit promise plans will no longer be offered, as companies and investors will not tolerate the unpredictable volatility. We strongly request the IASB reconsider requiring this approach.

- Approach 2: We disagree with the approach of recording the costs of service in the profit/loss statement and all other costs/income in other comprehensive income. The costs of service are not an appropriate measure of the true cost of defined benefit promise plans based upon the nature and structure of these plans. Defined benefit promise plans are structured to minimize the overall cost of the benefit obligation with the income received from the return on the plan assets. Benefit plan assets are placed in a separate trust vehicle and managed in relation to the long-term liabilities they are specifically meant to fund. Thus, the income and investment gains earned from the benefit plan assets minimize the cost of the benefit obligations. Therefore, we believe this approach greatly distorts the cost of the benefit plans and thus is misleading to the readers of the financial statements. This approach provides no incentive to fund a pension plan, which we believe is not an appropriate message to send to the financial markets. We believe that the cost of service and the income from the return on plan assets should be treated consistently to represent the true cost of the benefit plan.

- Approach 3: We agree with the approach of recording changes that arise from remeasurements relating to financial assumptions in other comprehensive income and all other amounts in the profit/loss statement (with the exception related to approach of including income generated from plan assets described below). This approach appears to align with the nature and structure of defined benefit promise plans. Conceptually, if a company's financial assumptions are based upon prudent data, the changes arising from remeasurements relating to financial assumptions should be minimal over the entire obligation period. As the benefit plan obligation and related assets are long-term in nature, we believe it is appropriate to account for the estimated cost in the profit/loss statement and account for any changes due to financial assumption movements through other comprehensive income. However, we are concerned with the methodology of including income generated from plan assets within this approach as discussed in the Discussion Paper. The following describes our views on the three methods considered by the IASB:

    - We agree with the approach of using the expected return on plan assets as the method of recording income generated from plan assets within the profit/loss statement each period and recording the differences between the estimated and actual income to other comprehensive income. We believe this approach aligns best with the nature and structure of these benefit plans and represents the best estimate of the true net costs of the benefit plan. It is important to acknowledge that the calculated benefit plan obligation is imprecise based upon the significant amount of assumptions utilized in the calculation. Thus, it should be appropriate to include an estimated return assumption that represents the expectations for a specific plan's assets over the long-term in the calculation of the estimated net cost of the benefit plan. The components of benefit plan assets are unique to each benefit plan depending on the structure and nature of the plans. We believe that using an expected return on plan assets assumption in the cost calculation should align with the specific plan and is consistent with the principles based accounting objective.

    - We disagree with both the approach of using dividends received on equity plan assets and interest earned on debt plan assets and the approach of using market yields at the reporting data on high-quality corporate bonds to impute the interest income. We do not believe that these approaches align with the nature of many benefit plan assets and thus, potentially significantly distort both the costs recorded to the profit/loss statement and the amounts recorded to other comprehensive income. For example, the composition of our plan assets in our defined benefit plan is significantly different than the proposed approaches as we have a significant amount of investments aimed at growth of the underlying assets rather than investment income. This results in actual returns much higher than the approaches proposed over the long-term. Using these proposed approaches would result in significantly higher costs with the profit/loss statement and a significant amount of capital gains and appreciation that would be recorded to other comprehensive income and never recorded to the profit/loss statement. We believe that this is very misleading to the readers of the financial statements and is inconsistent with a principles based approach. In addition, we are concerned that these approaches may force benefit plans to invest in lower earning investments to align the accounting with the actual investment portfolio which may lead to benefit plans not being able to fund their full benefit obligations. Also, these approaches may make benefit plan managers consider not funding the plan assets to the current funding levels because these approaches do not allow the benefit plans to realize the full benefit of funding the benefit plans within the profit/loss statement. We strongly request the IASB reconsider requiring this approach.

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

Sincerely,

ELI LILLY AND COMPANY

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