
June 19, 2012

Office of the Secretary
PCAOB
1666 K Street N.W.
Washington, D.C. 20006-2803

Re: PCAOB Rulemaking docket matter No.38: Proposed Auditing Standard Related to Related Parties; Proposed Amendments to Certain PCAOB Auditing Standards Regarding Significant Unusual Transactions; and Other Proposed Amendments to PCAOB Auditing Standards

Dear Board Members:

Eli Lilly and Company (“Lilly”) appreciates the opportunity to comment to the Public Company Accounting Oversight Board (“PCAOB”) on the PCAOB Release No. 2012-001, Proposed Auditing Standard Related to Related Parties; Proposed Amendments to Certain PCAOB Auditing Standards Regarding Significant Unusual Transactions; and Other Proposed Amendments to PCAOB Auditing Standards (the “Proposed Standard”). 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 supports the Proposed Standard’s objectives to strengthen existing audit procedures for identifying, assessing, and responding to the risks of material misstatement associated with a company’s related party transactions. We generally agree that the proposed amendments improve the audit requirements related party transactions. However, we are concerned regarding the extent of the auditor requirements related to executive compensation. The Proposed Standard requires the auditor to obtain an understanding of the company’s financial relationships and transactions with its executive officers. The Proposed Standard requires that the procedures should be designed to identify risks of material misstatement, and be sufficient to identify whether these financial relationships and transactions could create conditions (e.g. incentives and pressures) that result in risks of material misstatement, including fraud risks. These procedures include, but are not limited to, reading employment contracts, compensation contracts, proxy statements, other relevant company filings with the SEC or other regulatory agencies that relate to the company’s financial relationships with its executive officers and other employee agreements.

We agree with the PCAOB that it is important for the auditor to understand the company’s financial relationships with its executive officers and for the auditor to consider the risk to the audit. We also understand that there are incentives and pressures for executive officers to meet financial targets and that such incentives and pressures can result from executive compensation arrangements that are linked to company performance. However, we are concerned with the extent of the required audit procedures in the Proposed Standard and the potential unintended consequences of the auditors focus on executive compensation plans.

We believe that the proposed procedures are generally too broad and could potentially be interpreted by auditors that performance based compensation arrangements with executive officers will needed to be substantively audited which is a significantly different perspective than assessing an area for risk. The proposed procedures for a large multinational company would require a significant amount of time

and effort. We are concerned that requiring these procedures for all companies regardless of risk and professional judgment would not be cost beneficial for identifying areas of potential fraud or financial statement misstatement. While we agree that the executive compensation plans should be considered for risk, we believe the required procedures should be narrowed to require the auditors to review the proxy to understand the executive compensation plans and assess the risk to the audit. The auditors should first determine that a significant risk to the financial statement exists prior to performing extended substantive auditing procedures related to executive compensation arrangements.

In addition, we believe there may be unintended consequences by requiring too many audit procedures over executive compensation, such as the auditor's unintentionally influencing the design of the executive compensation structure. Companies may structure executive compensation arrangements to avoid potential issues related to auditor required procedures or to comply with auditor recommendations. The changes to executive compensation arrangements may not be in the best interest of the company from an overall perspective but may provide an appearance of lowering risk. We do not believe this is the role of the auditor as there are many others that have the responsibility to oversee executive compensation such as the board of directors, compensation committee, audit committee, etc.

Again, Lilly supports the PCAOB's efforts to improve the audit procedures related to related party transactions. However, we believe it is critical to focus the audit procedures on the areas of significant risk and are specifically concerned with the proposed expansion of required procedures related to executive compensation. We believe there are greater areas of exposure related to relationships with executive officers, such as supplier or customer relationships, that outweigh the risks of executive compensation. In addition, the auditors already have audit procedures regarding the risk of executive compensation and these additional procedures do not add a significant amount of additional benefit for the additional cost of performing them given that procedures are already being performed. We believe that the required procedures should be narrowed to focus the procedures to maximize the benefits from a risk perspective and limit the unintended consequences. In addition, the related party procedures should focus the requirements on the areas of greatest risk.

We appreciate the opportunity to express our views and concerns regarding the Proposed Standard. 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

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