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Rajeev Bhalla
Vice President and Contoller

April 13, 2004

MP&T Director – File Reference 1200-400
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Sent via email to director@fasb.org

Re: File Reference 1200-400
Proposed Statement of Financial Accounting Standards:
Accounting Changes and Error Corrections

Lockheed Martin Corporation welcomes the opportunity to provide comments on this proposed standard. Lockheed Martin is a publicly traded corporation principally engaged in the research, design, development, manufacture and integration of advanced technology systems, products and services. We reported 2003 sales of \$31.8 billion.

Lockheed Martin supports the general goal of convergence of international accounting standards and FASB's (the Board's) efforts in this regard. However, we do not support the finalization of this Exposure Draft (ED) in its present form due to significant concern over two issues: the differentiation (or lack thereof) between restatements due to error versus changes in accounting principle, and the lack of a cost versus benefit component (practicality) to the definition of "impracticability."

Regarding the first issue, paragraph 25 of the ED contains an interesting bit of reasoning that we find at odds with the accounting treatment prescribed elsewhere in the proposed standard. The second sentence reads "In contrast, a change in accounting estimate results from new information or subsequent developments and, accordingly, from better insight or improved judgment." The sentence is used to illustrate the difference between a change in estimate and a correction of an error, but we believe it also illustrates the *similarity* between a change in estimate and the

application of a new accounting principle.

Doesn't a new accounting principle come about as a result of "new information or subsequent developments" or "better insight or improved judgment" on the behalf of the standard setters and the profession? We believe this similarity is profound, and supports the notion of prospective application of both changes in estimates and changes in accounting principles. A change in accounting principle is, at its root, a better (hopefully) means of translating and recording economic events into accounting information (using new definitional or estimation criteria, if you will). It is not the correction of an error, and should not be perceived as such. Yet, the Board equates the two in its requirement for "retrospective application" of both.

In our view, the recording of a change in accounting principle through the recognition of a cumulative adjustment and prospective application is conceptually superior to the treatment proposed in the ED.

We believe this argument becomes only more compelling when considering the current level of mistrust of financial reporting following the accounting and auditing failures of the past several years. Mandating restatements by every company each time a significant accounting standard changes (which, based on recent history, is likely to be almost annually) does not lead to an expectation of increased investor confidence. Nor will it ever result in achievement of the Holy Grail of comparability over time.

Investors make comparisons using data from the past, but are not captives of it. More often, they rely on modeled projections of the future using only the most recent data as a baseline. Managers and investors both made decisions in the past based on measurement criteria in effect at the time. Revising history has some benefit, not the least academic, but that benefit should not be overstated, and it comes at a cost.

This leads to our second issue of concern, the lack of a cost versus benefit component in the Board's definition of "impracticability." As noted above, we believe there are limits to the benefits of comparability. We believe there should be limits to its cost as well. The Board acknowledges this elsewhere in the ED, specifically concerning recent accounting standards issued but not yet implemented, and concerning all previously issued and adopted accounting standards. In addition, the elements of the "impracticability" definition proposed in the ED imply that cost is at least partially a factor in the equation (if data is unavailable, could it not be recreated if not for the exorbitant cost of doing so?). We believe cost should be an explicit criterion as well.

Finally, and more broadly, we continue to be troubled by the Board's cavalier attitude toward the cost versus benefit factor in the quest for improved financial reporting. We call your attention to the dismissive tone in the second sentence of paragraph A22 of the ED: "However, the Board believes that the benefits of more comparable information for comparative financial statements will outweigh *any effort* that would be required on the part of preparers [emphasis added]." The

Page 3

Board provides no evidence for the validity of such a sweeping generalization because, frankly, we believe there is none.

Thank you for considering our comments during the Board's further deliberations.

Sincerely,

/s/ Rajeev Bhalla
Vice President and Controller