December 17, 2010

Technical Director (on behalf of Acting Chairperson)
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Subject: File Reference No. 1890-100

Dear Ms. Seidman:

Thank you for providing the Aerospace Industries Association ("AIA") and our individual members an opportunity to review and comment on the Discussion Paper entitled, *Effective Dates and Transition Methods* ("the Discussion Paper" or "DP"), issued by the Financial Accounting Standards Board ("FASB" or the "Board"). AIA is the premier aerospace industry trade association representing the nation's major manufacturers of commercial, military, and business products such as aircraft, helicopters, aircraft engines, missiles, spacecraft, and related components and equipment. AIA represents almost 300 manufacturing companies with over two million employees and contributes $57 billion to our nation's trade surplus. Many of our industry's companies are major suppliers to the U.S. Government.

We believe that a fundamental tenet of any new standard is that its application results in decision-useful information for investors, which can only be achieved if stakeholders are offered the necessary time to thoughtfully contemplate each new proposal and provide the Board with meaningful feedback to ensure the final standards are of the highest quality and result in improvements to our existing financial reporting model. To this end, we recommend that the Board consider the following in developing its implementation plan for newly issued standards.

Preparing for and transitioning to the new standards

Overall, we believe the current timing to complete the projects on the Memorandum of Understanding ("MoU") between the FASB and International Accounting Standards Board ("IASB") may be impractical given the historic magnitude of change these proposed standards will have on companies. We believe the Board should further modify the convergence timeline to allow stakeholders to devote the time necessary to thoughtfully contemplate the proposals and provide the Board with meaningful feedback.

The proposed standards underlying the MoU projects that we currently expect could most significantly affect companies in our industry include *Revenue Recognition: Revenue from Contracts with Customers ("Revenue Recognition"), Leases,* and *Financial Statement Presentation.* While each could be significant individually, the collective impact of preparing to adopt and transition to these proposed standards will be extremely complex, requiring investments and resources in the following areas: information technology (IT) infrastructure, analysis, education, training, and internal controls. Aspects of each of these projects coincide,

making it somewhat difficult to justify implementation completely independently of one another. For example, to the extent the quantitative disclosure requirements of *Revenue Recognition* require companies to track information that is not currently collected and used by management, system and process changes will be required. *Financial Statement Presentation* will also require companies to accumulate and present data associated with revenue and costs differently and will require IT system changes, including, how the data is accumulated. One would need to consider both requirements simultaneously to avoid making system changes more than once.

We also recognize that each new standard addressed in the DP will have a different magnitude of impact to different industries; however, we believe there are concerns that would likely be shared by all industries, including the following:

- The ability to manage, educate, and communicate to senior management, Boards of Directors, Audit Committees, investors, and analysts regarding the changes and related impact resulting from the adoption of new standards;
- The availability of external resources, including consultants and auditors, similar to the resource constraints that occurred during the implementation of Sarbanes Oxley;
- The availability and time required by companies' auditors to plan, understand, and test new processes, controls and data resulting from the changes in accounting standards;
- The premiums associated with the accelerated audits performed by auditors necessary for them to render an audit opinion;
- The impact to companies' business models and strategies; and
- Entity-wide training.

Given the importance of convergence topics, particularly *Revenue Recognition*, and the broad potential impact of the proposed standards, we believe that field-testing is necessary to ensure that the final standards are both operational and provide an improvement over existing financial reporting. We encourage the Board to re-expose the proposed standards if significant changes are made to the accounting and disclosure models set-forth in the Exposure Drafts. We believe these steps should be taken to ensure standards are fully vetted even if it likely results in delays to the agreed convergence timeline.

The transition methods within the proposed standards sometimes require retrospective application and/or presentation. We believe retrospective application for the proposed new standards is largely impractical and cost-prohibitive with regard to *Revenue Recognition*. We recommend the proposed standards include application guidance that considers when retrospective treatment may be impractical, such as that in FASB Accounting Standards Codification 250, *Accounting Changes and Error Corrections* (ASC 250), as follows:

- An entity is unable to apply the requirement after making every reasonable effort to do so;

- An entity is required to make assumptions about management's intent in a prior period that cannot be substantiated; and/or

- An entity is required to make estimates of amounts for which it is impossible to distinguish objective information about those estimates at the time they were made.

Specific to *Revenue Recognition*, we suggest that the proposed guidance be applied prospectively for contracts with customers entered into on or after the effective date of the standard. Historically, other major revenue recognition standards have been applied on a prospective basis, including most recently Accounting Standards Update No. 2009-13, *Revenue Recognition* (Topic 605): *Multiple-Deliverable Revenue Arrangements*, and Update No. 2009-14, *Software* (Topic 985): *Certain Revenue Arrangements that Include Software Elements.* To address the Board's concern regarding the preservation of trend information about revenue, we suggest that entities be required to disclose information, where practicable, that enables financial statement users to understand the effects of the change in accounting principle (resulting from adopting the new standard) in the spirit of ASC 250.

If the Board requires full retrospective reporting with respect to *Revenue Recognition*, companies would need a sufficiently long lead-time to assess potential system, process, and policy implementation challenges, which we believe will be substantial. It will take a significant amount of resources to implement this standard on a retrospective basis given the long-term nature of our contracts. We recommend that if retrospective application is required for *Revenue Recognition*, the adoption date be at least four years from the date of final standard issuance.

Implementation approach and timetable

We reiterate our belief that the adoption of the proposed standards, particularly *Revenue Recognition*, *Leases*, and Financial *Statement Presentation*, could have a significant impact on how companies account for and disclose transactions and present their financial results. However, the adoption of these new standards may also affect the manner in which companies operate, including servicing their customers, negotiating with suppliers, and rewarding their employees through various compensation plans. Additionally, we believe the adoption of these new standards will affect the manner in which senior management, Boards, analysts, and investors evaluate financial results. Therefore, the sequential approach, adopting no more than one or two new standards every few years, would be preferable. In this sequence, we would ask that the Board consider that the *Financial Statement Presentation* project be implemented last. This would allow companies to develop a stable accounting platform first by allowing stakeholders to understand the changes in accounting models before requiring initial adoption of the standard that will significantly alter how companies report their financial results. We believe this will produce the greatest comparability and most decision-useful information. Specifically, we believe the following effective dates would work reasonably, particularly for our member companies:

- *Leases* (accounting by lessees) – at least two years from issuance of final standard;

- *Revenue Recognition* and *Leases* (accounting by lessors) – at least four years from issuance of final standards; and

- *Financial Statement Presentation* – at least six years from issuance of final standard.

Regardless of whether the Board mandates the single-date approach or the sequential approach, in order to ensure the effective dates and transition methods chosen result in transparent and comparable financial statements, we suggest the Board consider the following:

- The differences, if any, between the new FASB standards and the "comparable" IASB standards;
- The U.S. Securities and Exchange Commission's (the "SEC's") decision regarding whether to permit U.S. issuers to use International Financial Reporting Standards ("IFRS"); and
- The adoption dates of the IASB.

We request the Board consider the above in determining the effective dates for each standard. Our concern is the potential adoption and implementation of multiple standards, or versions thereof, on the same topic. For example, assume *Revenue Recognition*, as issued by the FASB, were to be effective for 2013, the SEC permitted the use of IFRS by U.S. filers in 2014, and *Revenue Recognition*, as issued by the IASB, were to be effective for 2015. This fact pattern, while extreme, illustrates how important the factors listed above are to determining the effective dates for these new standards, as failing to do so could result in companies accounting for and reporting revenue-generating transactions under three different accounting standards over a three-year period. In addition, consistency is very important for U.S. companies with global subsidiaries that would have both an IASB (local) and FASB (parent) reporting requirement. Finally, we are concerned by the DP's reference to the FASB's and IASB's "comparable standards" and urge the FASB and IASB to reconcile any differences between their standards prior to issuance.

While many of the challenges outlined above will still exist regardless of the ultimate effective dates, delayed effective dates would result in a longer and more thorough analysis period to accumulate data and determine the most effective implementation plan. We believe the overall estimated implementation costs for the proposed standards will still exist, though delayed effective dates may reduce a portion of these costs. For instance, an extended analysis and implementation period would theoretically result in a more robust, thorough, and accurate implementation, thus, reducing the potential rework and manual efforts from a systemic, internal control, and process perspective, which, in turn, would reduce costs. Additionally, companies may likely utilize external resources to assist in their implementations of the new standards. By delaying the effective dates, it would spread the demand for such external resources over a longer period, which should drive down the premiums for those services. Delayed effective dates may also enable companies to better utilize internal resources.

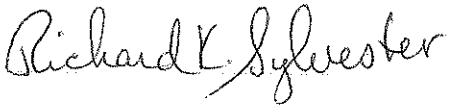
We also believe a blanket early adoption election may result in companies within the same industry on different accounting standards, reducing comparability of financial results. Similarly, the introduction of a separate set of accounting standards for private companies would not only reduce financial comparability, but also increase the complexity and cost of merger and acquisition transactions (e.g., due diligence and integration costs related to transactions between public and private entities).

Impact on the broader financial reporting system

We request the Board consider the broader contractual, legal, and regulatory impacts of changes to current standards, as accounting principles generally accepted in the U.S. ("U.S. GAAP") are ingrained in both the U.S. legal and regulatory environments. This is of particular concern to U.S. Government contractors, as we are subject to cost accounting regulations such as the Cost Accounting Standards ("CAS") and the Federal Acquisition Regulations ("FAR"), which provide specific rules regarding the measurement, accounting period assignment, and allocation of contract costs. Certain provisions of CAS and FAR include specific references to U.S. GAAP; for example, FAR 31.205-36(a) references "SFAS No. 13, Accounting for Leases." This and other references to U.S. GAAP would need to be revised in CAS and FAR. At this time, it is unclear how the Office of Federal Procurement Policy and the Procurement Executives in the Department of Defense ("DoD"), U.S. General Services Administration ("GSA") and National Aeronautics and Space Administration ("NASA") will revise the rules to achieve consistency for cost accounting. Therefore, the adoption of these new standards, particularly *Leases*, would generate additional complexities and cost to U.S. Government contractors. We believe the Board should work with the SEC and other regulatory agencies (e.g., the Office of Federal Procurement Policy and the Procurement Executives in DOD, GSA and NASA) to align their related accounting requirements prior to issuing new standards.

We commend the Board for its significant efforts to improve financial reporting standards worldwide and narrow the differences between U.S. GAAP and IFRS. We appreciate the opportunity to present our views on this subject and welcome the opportunity to review them with you either in person or by telephone. Thank you for your attention and consideration of our comments.

Best regards,



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