November 14, 2012

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Financial Accounting Standards Board
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Submitted via electronic mail to director@fasb.org

Subject: File Reference No. 2012-220

Dear Ms. Cosper:

Thank you for providing the Aerospace Industries Association ("AIA") and our individual members an opportunity to review and comment on the Invitation to Comment entitled, Disclosure Framework (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.

Overall, we conceptually agree with a footnote disclosure framework and we support the efforts of the FASB to explore various avenues to make financial statement disclosures more effective. However, we believe the Board should take a holistic approach to evaluating disclosures and not solely focus on the footnotes. We recognize that the Board does not control U.S. Securities and Exchange Commission ("SEC") regulatory disclosure requirements; however, we believe that the SEC and FASB need to work jointly to develop a cohesive framework. A joint approach is necessary in order for this project to achieve its stated goals of improving the effectiveness of financial statement disclosures, including reduction of disclosure volume through a sharper focus on disclosure of important information.

With respect to the disclosure framework outlined in the Discussion Paper, we believe decision questions would identify the right level and type of information for inclusion in the financial statement footnotes in most cases but that the scope of questions should be narrowed to exclude forward-looking information and risk factors. From a flexibility standpoint, we believe the provision of minimum and expanded sets of requirements would strike the right balance between providing baseline guidance and allowing companies to exercise judgment in determining what level of information should be disclosed to users of the financial statements.

As far as disclosure relevance is concerned, we believe the materiality and probability principles of Accounting Standards Codification ("ASC") Topic 450, Contingencies, could be a good starting point in governing footnote disclosure decisions. We believe that the established guidelines in ASC Topic 450 and current application of that guidance would align with the DP's goal of providing the most decision-useful information to financial statement users. We refer you below to our specific comments on the DP (organized by DP chapter), as well as our views on a possible disclosure framework.

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Chapter 1 – Scope

We believe the Board should broaden the scope of this project beyond the footnotes to develop a comprehensive reporting and disclosure framework. As stated in paragraph A3 of the DP Appendix, the FASB’s Investors Technical Advisory Committee (“ITAC”) “...recommended that the SEC and the FASB work together to develop a disclosure framework to, among other things, —integrate existing SEC and FASB disclosure requirements into a cohesive whole to ensure meaningful communication and logical presentation of disclosures, based on consistent objectives and principles.” 1 Formation of a singular view by both the FASB and SEC of what relevant information should be included in the notes to the financial statements versus what information should be included elsewhere (e.g., Management’s Discussion and Analysis of Financial Condition and Results of Operations, or “MD&A”) would allow financial statement preparers to avoid disclosure redundancy.

To achieve this objective, we believe that the FASB and SEC should define the purpose of both footnote disclosures and disclosures required elsewhere in the financial statements. We view MD&A information as focusing on known business trends, results of operations, financial condition, and liquidity, including forward-looking information, whereas we view the primary focus of footnote disclosures to detail accounting policies, material financial statement line item information about each balance as of the financial statement date, and historical information. Current FASB projects (e.g., Revenue Recognition (Topic 605), Revenue from Contracts with Customers; Leases (Topic 840); and Financial Instruments (Topic 825), Disclosures about Liquidity Risk and Interest Rate Risk) propose footnote disclosure of forward-looking information. We believe this information is better fit for MD&A, as it requires an assessment of future reporting periods. Inclusion of forward-looking information in the notes to the financial statements also excludes it from the safe harbor protections regarding forward-looking statements afforded by the Private Securities Litigation Reform Act of 1995 (“PSLRA”) and related SEC regulations. Accordingly, the FASB and SEC must resolve this disconnect in order for the FASB to define the objective for a footnote disclosure framework.

We also believe this holistic approach would benefit financial statement users by clarifying where to find certain information. Specifically, users would benefit from the ability to go to one place to get all of the relevant information about a certain topic, as opposed to “bouncing” between sections. This approach would also assist entities in ensuring that their disclosures in each section of the financial statements appropriately meet the objectives for that section. Ultimately, we believe a holistic approach is necessary to achieve the goal of making the financial reporting process more effective and coordinated.

Chapter 2 – The Board’s Decision Process

Generally, we agree that decision questions would provide a good framework for the Board in establishing disclosure requirements for individual projects and for reporting entities in determining the nature and extent of information that should be shared with investors and creditors. However, we are concerned with an approach that focuses so pointedly on future cash flows. We believe the primary purpose of financial statement footnotes is to describe how past

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transactions were measured, recognized and presented in the financial statements. We believe it is important to convey uncertainty related to future settlement of assets and liabilities recorded on the balance sheet at a point in time; however, we do not believe it is appropriate to disclose the amount and timing of future cash flows in the footnotes to the financial statements.

We believe the questions related to general information about a reporting entity (Questions G1 to G4) are reasonable, appropriate, and complete. These questions elicit information that is important to investors and creditors in understanding the composition and operations of the entity and making assumptions about the future cash flow prospects of the entity.

We believe the questions related to information about line items (Questions L1 to L16) can be improved. First, it seems some of the questions are duplicative and could be combined to streamline the Board’s decision process. For example, questions L1, L4, L9, and L14 could be combined into a single question – “What are the components of the line item and how are those components measured and recognized in the financial statements?” Second, questions that could result in a requirement to disclose forward-looking information should be reworded or removed from the decision process. For example, questions L2(e) and L2(f) suggest that the Board considers requiring disclosure of amounts and timing of estimated future cash flows for financial instruments and other contracts or legally binding documents. We believe it would be more appropriate to require qualitative disclosure of uncertainty regarding settlement of items.

As noted above, we do not believe it is appropriate to include forward-looking information in the financial statements, as it would not be covered under the safe harbor provisions afforded by the PSLRA and related SEC regulations, and would likely be unauditable. Further, we believe that questions L5 and L6 should be removed, as they would require disclosure of information already included in the general risk factors covered in Part I, Item 1A of SEC Form 10-K, and Part II, Item 1A of SEC Form 10-Q. Finally, we disagree with a requirement to disclose alternative accounting policies (question L10) or measurement methods (question L16) unless the item is significant and the accounting policies or measurement methods used by an entity are not in accordance with generally accepted accounting principles. If an item is significant to the financial statements, the related accounting policy and measurement method is currently disclosed and it should be the responsibility of the investor or creditor to determine the impact of using alternative policies or measurement methods. Disclosure of alternative accounting policies and measurement methods could lead to confusion and questions as to preferability of policies and methods.

With respect to questions related to information about other events and conditions (Questions O1 to O7), we believe questions O1 (a–c), O2 and O3 (a and c) are appropriate as they are focused on ASC Topic 450 off-balance sheet and concentration of credit risk disclosures that we believe should be included in the footnotes to the financial statements. We believe questions O1d and O4 to O7 should be removed, as they would require companies to disclose information that is already included in the general risk factors covered in Part I, Item 1A of SEC Form 10-K and Part II, Item 1A of SEC Form 10-Q (questions O1d, O4 to O6) or quantitative and qualitative disclosures about market risk included in Part II, Item 7A of SEC Form 10-K and Part I, Item 3 of SEC Form 10-Q (question O7). We also believe question O3b should be removed, as it would be impracticable for an entity to judge the likelihood of losing specific customers or suppliers. We believe that disclosures about the concentration of risk and any plans to mitigate the concentration of risk are sufficient as they are based in fact versus supposition. Prior to making any final decisions on the disclosure framework, as discussed in
detail above, we believe the Board should work with the SEC in determining the desired placement of disclosures (i.e., MD&A versus financial statement footnotes, etc.) to reduce or eliminate duplicative disclosures.

Finally, we believe the Board should consider how the decision process for financial statement disclosure fits into the current conceptual framework. We believe there is a balance between what is reasonable for an entity to disclose in its financial statement footnotes about future cash flows and risks related to those cash flows and the responsibility of investors and creditors to use all information available to make investment decisions. Paragraphs OB 3 and OB 6 of Statement of Financial Accounting Concepts No. 8 delineate responsibility as follows:

- "Investors', lenders', and other creditors' expectations about returns depend on their assessment of the amount, timing, and uncertainty of (the prospects for) future net cash inflows to the entity. Consequently, existing and potential investors, lenders, and other creditors need information to help them assess the prospects for future net cash inflows to an entity." (paragraph OB3)

- "However, general purpose financial reports do not and cannot provide all of the information that existing and potential investors, lenders, and other creditors need. Those users need to consider pertinent information from other sources, for example, general economic conditions and expectations, political events and political climate, and industry and company outlooks." (paragraph OB6)

Overall, we believe many of the decision questions in this chapter and related indicated disclosures identify information that does not belong in financial statement footnotes, including forward-looking information not covered under safe harbor provisions afforded by the PSLRA and related SEC regulations and general risk factors already included SEC Forms 10-K and 10-Q. If the scope of the decision questions is narrowed, as described above, we believe the decision questions would identify the right level and type of information for inclusion in the financial statement footnotes in most cases.

As noted above, we believe the decision questions should be applied by the Board in establishing disclosure requirements for a particular ASC Topic and then applied by entities in determining the appropriate level of information to be shared with investors and creditors. We believe the use of a decision process would be an improvement in standard-setting and would result in disclosures that are more effective.

Chapter 3 – Making Disclosure Requirements Flexible

We believe that under today's disclosure guidance it is sometimes difficult to determine the right level of disclosure. When implementing new disclosure guidance or adjusting disclosures for recent activities, it can take several attempts to ensure management, the disclosure committee and the auditors agree on the level of disclosure provided in the financial statement footnotes. As such, we are supportive of a disclosure framework that would allow disclosure requirements to be more flexible and tailored to specific activities and transactions important to users of the financial statements.

We disagree with an approach that places most of the responsibility for judgments on the reporting entity. In theory, a less prescriptive approach is attractive; however, we believe it may not drive the appropriate level of disclosure (i.e. too much disclosure or too little disclosure) and
could result in differences of opinion between an entity and the auditor as to what level of disclosure is required. We also disagree with an approach whereby the Board sets different disclosure requirements for different entities. We believe an entity should have some responsibility for determining what information should be disclosed to users of the financial statements.

Of the possibilities discussed in paragraph 3.11, we believe the most sensible approach is for the Board to provide a minimum set of disclosures and an expanded set of disclosures for each ASC Topic. We believe the approach outlined in 3.11c strikes a balance between providing a general framework for the disclosure and allowing an entity to use judgment in applying the framework. Regarding the other approaches outlined in paragraph 3.11, today there is typically one set of disclosure guidelines for each ASC Topic and entities have difficulty in determining whether all or only some of the disclosures should be included in their financial statements.

Additionally, the inclusion of more than two decision points (i.e. minimum and expanded) seems to be overkill and may introduce an unintended level of precision to financial statement disclosures.

**Chapter 4 – Reporting Entities’ Decisions about Disclosure Relevance**

We believe rooting the footnote disclosure framework in requirements to assess relevance by both materiality and probability based on management’s judgment is preferable to a framework that focuses on management trying to determine what may be decision-useful information given the large number of users with varying views on what information is important. Therefore, we offer the following suggestions to consider in any footnote disclosure framework, which we believe align with the goal of effective and coordinated disclosures.

- We believe the materiality and probability principles of ASC Topic 450 could be a good starting point in governing footnote disclosure decisions. The ASC Topic 450 framework focuses on both materiality and probability of occurrence / relevance. These concepts align with DP goal of disclosing relevant information balanced with the flexibility for preparers to determine which information should be disclosed. If a clear disclosure framework exists that provides preparers with relevance criteria for why they chose to disclose what they did, it establishes an expectation for users (e.g., investors; regulators) regarding how an entity came to omit certain disclosures.

- Using ASC Topic 450 as a disclosure basis, we believe an entity would provide footnote disclosure when an item is material, an item is reasonably possible to occur and is material, or an item is reasonably possible to occur and reasonably possible to be material. No disclosure would be required when an item is immaterial or remote. When there are no specific disclosure requirements for an item (i.e., unusual items), an entity would evaluate whether an item is material or reasonably possible to occur/be material. For example, entities could follow current gain/loss contingency guidance (i.e., disclose anticipated losses and recognize gains when realizable) when analyzing the relevance of unusual items. This evaluation process would assist users in understanding the effect of an item or event on an entity’s cash flows for the period.

- Materiality thresholds relating to information about line items would be applied through Sarbanes-Oxley (“SOX”) / Staff Accounting Bulletin No. 99 (“SAB 99”)
guidance for balance sheet and income statement disclosures. For liquidity disclosures, entities would apply the same balance sheet threshold. Internal control and man-hour considerations would be a factor in performing an assessment under this framework; however, entities currently spend ample time completing checklists and applying the associated controls, as such, we believe the right cost-benefit balance could be achieved with the right amount of field testing by following this or a similar model.

We believe the above materiality and probability approach, which is rooted in previously established guidelines and practice, would promote the DP's goal of entities applying judgment to disclose relevant footnote information that aligns with management's views, thereby providing the most decision-useful information to financial statement users.

Chapter 5 – Format and Organization

With respect to format, we agree disclosures should be entity specific and the use of tables, headings and cross references would enhance the understandability of financial statement footnotes. However, we disagree with highlighting specific information in the footnotes. We do not believe it is appropriate to draw attention to certain aspects of a footnote disclosure when all information included in the footnote is pertinent to a user's understanding of the entity's activities. With respect to common points of reference, we agree that entities should establish common points of reference to be used across all of its financial statement disclosures. However, we believe that common points of reference should be entity specific and not prescribed across companies or industries.

With respect to organization, we do not believe there should be a prescribed order to footnote disclosures as footnote disclosures should be a communication exercise rather than a compliance exercise. We believe the Board could provide some implementation guidance to help reporting entities determine the order but ultimately flexibility is required so entities can effectively communicate how events and transactions have or will affect the entity. Furthermore, we believe the use of cross-referencing, as discussed above, could alleviate user concerns about linkage of related information in the footnotes.

Chapter 6 – Disclosures for Interim Financial Statements

Overall, we support the existing SEC framework for interim reporting, which views interim reports as an integral part of the annual reporting cycle. We believe interim disclosures are intended to update the most recent annual financial statements and disclosure requirements should be limited to items that provide relevant information; this includes items that are accounted for differently in interim versus annual periods, significant interim events or transactions, and information that has changed significantly from disclosures in the most recent annual financials. To achieve this end, we believe interim financial statements should similarly be subject to the materiality and probability of occurrence / relevance framework we propose above, but with a focus on whether a material change or changes from the annual financial statements has (have) occurred. This will ensure that interim financial statements provide decision-useful information that focuses on the condensed financial statements and supplemented by selected notes that an entity deems relevant to an interim period.

Chapter 7 – Other Matters for Discussion
We believe addressing the accounting policy footnote in isolation will not remedy disclosure / information overload. We believe a set of financial statements should be able to stand on its own. As such, we do not believe that moving the policy footnote from the financial statements to another document / website or including an accounting policy only if that policy has changed or is industry-specific would make disclosures more coordinated. Additionally, it would require users to spend greater time seeking out other sources of information (e.g., companies’ websites, FASB ASC) to understand accounting policies.

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 in advance for your consideration of our comments.

Best regards,

William C. Greenwalt
Vice President, Acquisition Policy