March 13, 2012

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Mr. Hans Hoogervorst, Chairman
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Submitted via electronic mail to director@fasb.org

Subject: File Reference No. 2011-230

Dear Madam and Sir:

Thank you for providing the Aerospace Industries Association ("AIA") and our individual members an opportunity to review and comment on the Exposure Draft entitled, Revenue from Contracts with Customers, Revision of Exposure Draft Issued June 24, 2010 ("Exposure Draft" or "ED"). 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.

In our industry, we enter into arrangements with customers to provide highly customized and complex engineering, design and manufacturing services over extended periods. These arrangements are usually with an individual customer (principally the U.S. Government or "USG") and are generally priced based on estimated costs plus a reasonable margin for the risks we assume in the contracts. Our industry is specialized and we believe that our contracts embody various complexities, such as incentive / award fees; change orders; options / additions; combining and segmenting; claims; and penalties. The existing revenue recognition models for such contracts under Financial Accounting Standards Board (FASB) Accounting Standards Codification® (ASC) 605-35, Revenue Recognition, Construction-Type and Production-Type Contracts (ASC 605-35), and International Accounting Standard (IAS) 11, Construction Contracts, are well established and understood by investors in our industry, as they align with how our contracts are bid, negotiated and managed.

We appreciate the Boards’ consideration of many of the concerns expressed in our previous comment letters on the joint revenue recognition project, as well as the efforts of the Project Staff in working directly with our industry group to understand the impact of the proposed framework on our members. However, we respectfully request that the Boards consider clarifying or modifying the proposed standard with respect to our remaining concerns.
to ensure that it is operational for our industry, particularly given that the potential changes to our systems and processes will affect people supporting thousands of contracts during a time when our principal customer is under substantial cost pressures, and that it continues to provide decision-useful information to our investors. We have outlined our remaining concerns according to the applicable section of the ED, as follows.

**Identifying performance obligations**

We understand from the Basis for Conclusions that paragraph 29 was included in the Exposure Draft to respond to feedback received from companies in the construction and manufacturing industries, particularly those companies that have historically applied ASC 605-35. Therefore, we would expect, for example, that a contract with the USG for the production of six aircraft would meet the criteria in paragraphs 29(a) and 29(b) and the arrangement would be accounted for as a single performance obligation. However, in recent Aerospace & Defense (A&D) publications, some of the major public accounting firms have suggested in their reviews of the ED that in a production contract for multiple units, each aircraft would likely be a separate performance obligation, presumably because the individual aircraft would not meet the “highly interrelated” criterion in paragraph 29(a). This interpretation does not reflect the underlying nature of the transaction, the risk involved, or the way such efforts are bid in our industry. Rather, we believe the units in the production contract are highly interrelated as the units are bid, negotiated, and managed as a single arrangement. In order to avoid misapplication of the guidance as intended by the Boards, we recommend the Boards provide indicators to help companies determine whether the goods or services in a bundle are “highly interrelated.” The indicators could include, but not be limited to, the following:

- The bundle of goods or services is negotiated as a package in the same economic environment with an overall profit margin objective and significant shared risks.
- The bundle of goods or services constitutes in essence an agreement to do a single process or project. A project for this purpose consists of construction, or related service activity with different elements, phases, or units of output that are closely interrelated or interdependent in terms of their design, technology, and function or their ultimate purpose or use.
- The bundle of goods or services requires a significant service to manage and coordinate closely interrelated construction activities.
- Goods or services in the bundle are produced or performed concurrently or in a continuous sequence under the same project management at the same location or at different locations in the same general vicinity.
- The bundle of goods or services is significantly modified or customized to a customer’s specification.

We also recommend that the Boards clarify the scope of paragraph 29 in the ED by providing a list of contract types where the goods or services in the bundle would likely be “highly interrelated.” We believe that the contract types for which paragraph 29 is intended could be based on the guidance in ASC 605-35-15-3 and include, but not be limited to, the following:

(a) **Contracts in the construction industry, such as those of general building, heavy earth moving, dredging, demolition, design-build contractors, and specialty contractors (for example, mechanical, electrical, or paving). In general the type of contract here under consideration is for construction of a specific project. While such contracts are generally**
carried on at the job site, this Subtopic also would be applicable in appropriate cases to the manufacturing or building of special items on a contract basis in a contractor's own plant.

(b) Contracts to design and build ships and transport vessels.

(c) Contracts to design, develop, manufacture, or modify complex aerospace or electronic equipment to a buyer's specification or to provide services related to the performance of such contracts.

(d) Contracts for construction consulting service, such as under agency contracts or construction management agreements.

(e) Contracts for services performed by architects, engineers, or architectural or engineering design firms.

(f) Arrangements to deliver software or a software system, either alone or together with other products or services, requiring significant production, modification, or customization of software.

We believe that the guidance in paragraph 29 of the ED would have a greater chance of being applied and interpreted consistently by preparers, public accounting firms, and regulators if the Boards provided the additional clarifying criteria described above.

Satisfying performance obligations

Waste / inefficiency costs

We agree conceptually with excluding inefficiencies from an input measure, however, we believe there may be application challenges associated with the proposed requirements. For instance, it is unclear how one determines if a cost represents waste or inefficiency when the concept of rework is priced into a company's bids across a portfolio of contracts with the knowledge that rework will vary from contract to contract. Additionally, it is unclear at what point prior to a performance obligation becoming onerous that costs would be considered waste (i.e., on a contract with an initial expected 10% margin, does one consider costs waste when margin degrades to 8% or 5% or 2%)?

In our industry, we often bid an estimate of rework into our contracts and view rework as a normal cost of providing highly complex, specialized and cutting-edge deliverables; therefore, we would not view changes in estimate related to varying degrees of trial and error efforts (which are a normal course of business in performing on contracts in our industry) as "waste." These costs result from the realization of risks that were possible (but not considered highly likely) at the inception of a contract, which are currently included in contract cost estimates and that affect the overall profitability of the contract (e.g., rework, work-arounds, re-design costs and similar items). As rework and trial and error is inherent to the process of delivering highly complex solutions, ultimate successes on contracts in our industry would not be possible without the benefit of knowledge gained from our efforts in these areas. Separately expensing these rework costs would distort contract margins over the remaining periods of performance and disassociate the economics from the accounting for the underlying transactions.

For example, under existing U.S. GAAP, if actual rework costs exceeded the initial estimated amount for a contract with an expected margin rate of 10%, one would include these incremental costs in the estimate-to-complete and reduce the contract margin rate. However, if a contractor were to treat these rework costs as "wasted" costs, the proposed standard might be
interpreted to imply that the contractor would expense the rework costs and still report a 10% gross margin on the overall contract going forward. This appears to skew reported results in a manner that does not reflect the economic substance of contracts with customers and renders any assessment of future performance less predictive. In addition, this approach may present application challenges, as increased cost estimates are often identified after the initially incurred effort (i.e., initial performance of effort in one quarter is later determined in another quarter to be insufficient and many of these increases historically relate to estimated future profit and related costs). Excluding these costs from contract margin rates as “waste” could result in variability in reporting practices and reduce the comparability of information between similar companies in our industry. For example, consider a contract with a 10% margin at bid that, in a subsequent period, experiences a 2% increase in costs related to expected rework. If one interprets the proposed standard as requiring an entity to expense the rework costs separately, the accounting would not reflect actual economic performance of 8%, but would instead reflect an artificially high gross margin over the remaining period of performance. The same scenario under current guidance would result in an 8% margin on the entire contract, as one would record the adjustment via the cumulative catch-up method in the period of the change in estimate. We believe that current practice provides a more timely and accurate depiction to investors of the current economic performance on the contract, as well as a better projection of future performance.

For these reasons, we suggest this concept be eliminated, as we believe that many of the costs intended to be captured by paragraph 45 of the ED will cause a performance obligation to become onerous and therefore require immediate recognition. The requirement to record an onerous liability is operationally easier to apply than determining at what point rework was not contemplated in the pricing of a contract.

However, if the Boards decide to retain the guidance in paragraph 45 of the ED, we suggest the following revisions:

A shortcoming of input methods is that there may not be a direct relationship between the entity’s inputs and the transfer of control of goods or services to the customer because of inefficiencies in the entity’s performance or other factors. Hence, when using an input method, an entity shall exclude the effects of any inputs that do not depict the transfer of control of goods or services to the customer (for example, costs related to excess / idle capacity or similar costs that provide no utility to contract performance, or infrequent / non-recurring costs such as those related to work stoppages, natural disasters, or other force majeure incidents not anticipated in the normal course of business / reflected in pricing across an entity’s portfolio of contracts.)

We believe these revisions would clarify that certain costs associated with delivering highly complex solutions are considered in how we bid and manage our contracts and ensure that we continue to report results in a manner that reflects the economic substance of our transactions.

Uninstalled materials

We note that the Boards have not provided guidance on margin within the framework of the proposed model, despite the fact it will supersede current guidance that addresses margin (including ASC 605-35). We believe this may result in accounting that does not reflect the
underlying economics of transactions in our industry, as under certain contracts with the USG, we are entitled to margin on all of our costs and in the event of a termination-for-convenience, our customer would owe us reasonable profit in addition to our costs regardless of the type of costs (e.g., internal labor, subcontractor costs, installed materials, uninstalled materials, etc.). Further, to suggest that different efforts within a single performance obligation should be measured using different attribution models and that those efforts have inherently distinct prices / margins appears to undermine the conclusion that a single performance obligation is appropriate.

Given the above, we recommend eliminating this section of the proposed model, as the prescriptive nature of applying a zero-percent margin to certain costs is inconsistent and, in many cases, will yield an interpretation that does not align with the economics of the underlying transactions. We believe the issue may be better addressed by providing additional guidance on contract costs for performance obligations satisfied over time, as detailed in the section that follows.

**Contract costs**

We believe the Boards should provide guidance permitting companies to select a systematic and rational approach for recognizing costs to earnings to reflect the single overall profit objective of a performance obligation satisfied over time. Paragraphs 38 through 48 of the ED provide guidance for determining the timing of revenue recognition for a performance obligation satisfied over time. If the cost-to-cost method is selected for recognizing revenue, we believe it is clear that costs would be recognized as incurred. However, if any other measurement method (e.g. units of delivery, milestones) is selected for recognizing revenue, we do not believe the guidance provided will adequately allow for the determination of the amount of costs to be recognized at each revenue recognition event. Therefore, we recommend the following be added after paragraph 40 of the ED to address recognition of costs:

*For each separate performance obligation satisfied over time, an entity shall apply a rational and systematic approach for relieving contract assets and recognizing cost of sales that reflects the single overall profit objective for that performance obligation.*

We believe the Boards should provide guidance permitting lot accounting in instances where multiple production units do not meet the criteria in paragraph 29 for bundling into a single performance obligation. Lot accounting, as described in ASC 605-35-25-9, is an average costing method that reflects the economics of long-term production efforts and contracting. We recommend the following be added after paragraph 93 of the ED to permit average unit costing in certain circumstances:

*Performance obligations that do not meet the criteria in paragraph 29 for bundling into a single performance obligation may be combined into groupings such as production lots or releases for the purpose of accumulating and allocating production costs to units produced or delivered based on average unit costs in the following circumstances:*

(a) *Performance obligations are for the production of substantially identical units of a basic item produced concurrently or sequentially.*
(b) Performance obligations are for the production of highly complex, specialized equipment where costs incurred on initial performance obligations benefit all performance obligations.

In keeping with the above, we believe companies could then disclose their policy for relieving inventory and recognizing cost of sales related to performance obligations satisfied over time. We recommend the following be added after paragraph 127 of the ED to address disclosure:

An entity shall disclose information about the methods, inputs, and assumptions used to relieve contract assets and recognize cost of sales when performance obligations are satisfied over time.

Onerous performance obligations

We understand that the Boards’ focus with this test is to ensure timely reporting of losses from contracts with customers. However, we do not believe this is best achieved by testing at the level of the performance obligation if it was anticipated that some performance obligations would be satisfied at a loss. For example, in determining the overall price of a particular contract, a seller may accept (and even expect) a loss on certain performance obligations within that contract because that loss will be offset by other profitable performance obligations within that same contract. From an economic standpoint, the seller usually accepts this situation only because these performance obligations are being negotiated and performed together under a single contract. We believe it would be more useful to investors to understand when, at the contract level, due to cost overruns or unanticipated production issues, the contract has fallen into an overall loss position. This would truly represent an adverse change in circumstances for which a liability should be recorded and the change in circumstances should be disclosed in the financial statements. Therefore, we recommend that the onerous test be performed at the contract level.

Alternatively, we suggest providing a principles-based framework for performing the onerous test based on the overall economics of the business arrangement to allow for situations where there is an underlying economic reason at inception for entering into an unprofitable contract (e.g., expectation of follow-on orders). Such a framework should provide guidelines to allow a company to make a qualitative assessment based on certain specific criteria, and only when this qualitative assessment indicates an adverse change in circumstances would the entity be required to perform a quantitative calculation of an onerous liability. To facilitate consistency, the Boards could outline various economic indicators that a company should use in its qualitative determination of whether or not adverse circumstances exist.

Contract modifications and claims

Paragraphs 18 and 19 of the ED instruct as to when the proposed revenue guidance can be applied to a contract modification. For example, paragraph 19 of the ED states:

If the parties to a contract have approved a change in the scope of the contract but have not yet determined the corresponding change in price, an entity shall apply the proposed revenue guidance to the modified contract when the entity has an expectation that the price of the modification will be approved.
This proposal is consistent with ASC 605-35-25-28, which states:

For all unpriced change orders, recovery should be deemed probable if the future event or events necessary for recovery are likely to occur. Some of the factors to consider in evaluating whether recovery is probable are the customer’s written approval of the scope of the change order...

However, paragraph 18 in the ED states:

If a contract modification has not been approved by the parties to a contract, an entity shall continue to apply the proposed revenue guidance to the existing contract until the contract modification is approved.

Together, paragraphs 18 and 19 of the ED could be read to suggest that an unapproved change in scope should not modify the transaction price of a contract for purposes of applying the proposed revenue guidance until such time that the change in scope has been approved. In the A&D industry, entities are routinely seeking contract price adjustments for changes in project cost, broadly referred to as claims, due to a variety of factors. As a result, historical experience in resolving claims consistent with management’s expectations provides a basis for estimating the amount to include for claims in the determination of the transaction price. ASC 605-35-25-30 provides the following definition:

Claims are amounts in excess of the agreed contract price (or amounts not included in the original contract price) that a contractor seeks to collect from customers or others for customer-caused delays, errors in specifications and designs, contract terminations, change orders in dispute or unapproved as to both scope and price, or other causes of unanticipated additional cost.

Unlike the potentially restrictive language in the ED, ASC 605-35-25 provides the following guidance in paragraph 31:

Recognition of amounts of additional contract revenue relating to claims is appropriate only if it is probable that the claim will result in additional contract revenue and if the amount can be reliably estimated. Those two requirements are satisfied by the existence of all of the following conditions:

(a) The contract or other evidence provides a legal basis for the claim; or a legal opinion has been obtained, stating that under the circumstances there is a reasonable basis to support the claim.
(b) Additional costs are caused by circumstances that were unforeseen at the contract date and are not the result of deficiencies in the contractor's performance.
(c) Costs associated with the claim are identifiable or otherwise determinable and are reasonable in view of the work performed.
(d) The evidence supporting the claim is objective and verifiable, not based on management’s feel for the situation or on unsupported representations.

We believe the general principles in the proposed model support accounting for contract claims consistent with current practice. In paragraph 13, the ED defines a contract as “an
agreement between two or more parties that creates enforceable rights and obligations. Enforceability is a matter of law.” In addition, paragraph BC34(d) clarifies with respect to paragraph 14(d) that “the consideration need not be fixed to identify the payment terms. Hence, the entity would determine the transaction price on the basis of the proposed guidance in paragraphs 50–67.” This guidance supports that claims may be evaluated as a legally enforceable right for which an entity can determine the transaction price based on the guidance in paragraphs 50-67.

In order to ensure consistent application of the proposed guidance by various constituents we believe that the Boards should revise the guidance under contract modifications to allow judgment to be applied to contract claims as it is done today. For example, paragraph 19 could be amended as follows:

If the parties to a contract have approved a change in the scope of the contract but have not yet determined the corresponding change in price, an entity shall apply the proposed revenue guidance to the modified contract when the entity has an expectation that the price of the modification will be approved. Similarly, if the entity is legally entitled to a change in price but the parties have not yet agreed to the change, an entity shall apply the proposed revenue guidance to the modified contract if the entity can determine it is probable that the modification will be approved and the change in price can be reasonably estimated. To estimate the transaction price in such cases, an entity shall apply the proposed guidance in paragraphs 50-67.

**Time value of money**

We do not believe the broader implications of introducing time value into the revenue accounting model have been considered by the Boards. Business models where implicit financing is inherent in contracts with customers generally have similar arrangements with suppliers and collaborative partners. An accounting model that discounts only revenues could significantly distort the financial results of these businesses. It is imperative that the Boards address time value holistically.

In addition, it is important to consider the complexity and potential challenges with identifying financing components of an arrangement. Different forms of payments may be considered by some to “have a primary purpose other than financing” but viewed by others as implicit financing. For example, consider advance payments to reserve production capacity or lock-in favorable pricing. We believe the Boards should provide additional guidance on the discussion in paragraph BC147 regarding circumstances where payments in accordance with typical payment terms of an industry “have a primary purpose other than financing.” A list of illustrative examples would be helpful and may include payments for security deposits, retainages, and risk transfer service arrangements (i.e., extended warranty contracts), etc.

**Disclosure**

We support the Boards’ goal of improving the ability of financial statement users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. However, given that the proposed model will apply across all industries, we do not believe prescriptive disclosures are beneficial given the substantial differences across business models. We suggest requiring disclosures at a principles-based
level, as this would allow different industries to provide information relevant to their respective financial statement user groups, while maintaining the principles based intent of the Exposure Draft. Further, we do not believe that many of the proposed disclosures provide decision-useful information. For instance, the tabular reconciliation is merely a reconciliation of account balances with no other utility. We suggest replacing the volume of required quantitative disclosures with decision-useful qualitative disclosures such as contract type or activity that companies can supplement with quantitative data about an entity’s relevant contract activities. We also urge the Boards to take the cost-benefit of the proposed disclosures into consideration. In an effort to reach one accounting model, we feel that the Exposure Draft contains many non-substantive quantitative disclosures that will inundate the reader with data that is not decision-useful. It should be noted that the reconciliation of a net contract asset or liability is not prepared in our day-to-day management of the thousands of contracts within our businesses. We suggest that in developing the disclosure requirements, the Boards emphasize a “Management Approach,” as presently set forth in ASC 280, Segment Reporting.

Reconciliation of contract balances

In our industry, we do not provide products or services that are mass-produced in homogeneous categories or groupings. Rather, we perform thousands of unique contract activities to meet the specific needs of our customers. Today, we generally use the contract as the profit center for evaluating the operating performance results for our business. In this context, the compilation of quantitative information across a broad range of contracts or programs is of little value in providing an understanding of how our business is operating and will be overly burdensome to compile. Explaining the performance of major programs, and allowing the users to gain an understanding of the contract mix (flexibly priced vs. fixed-price) within our contract portfolio would be more insightful to financial statement users.

It is unclear how an outside user of the financial statements would derive value from the proposed disclosure of information aggregated across thousands of contracts and presented in a rollforward fashion when: 1) company management does not compile and aggregate that information nor use it in any meaningful way to run its business; and 2) the underlying contracts consist of fundamentally different contract types such as service, design, manufacturing, operations and maintenance and supply contracts, among others.

It is for this reason that we believe that quantitative tabulations of aggregate activity within our contract balance sheet accounts will not provide decision-useful information to our financial statement users. We believe that quantitative disclosures should be used to supplement qualitative disclosures about an entity’s contracting activities, such as disclosure of the percentage of contracts that are either flexibly priced or fixed-price, or the nature and amounts of unbilled receivables that are not expected to be billed in the ensuing billing period. By aggregating information across all contract types, activities and geographies, financial statement users will lose any visibility into factors leading to higher risk programs and contract activities that would be of the most importance. For example in our industry, we may require advance payments from certain commercial or foreign customers based on a credit risk assessment. Simply presenting this information in the aggregate across all contracts would not provide financial statement users with any decision-useful information on our risk profile.

Additionally, we believe the disclosure requirements, as written in the ED, from the definition of a contract asset and liability to the required components of the rollforwards are not
defined consistently enough to allow two different companies to interpret the requirements in a similar manner. Consequently, any intended benefit of being able to provide financial statement users with consistent, comparable information with which to evaluate performance across different companies will be negated. We suggest that if the Boards carry these very prescriptive rollforward requirements through to the final standard that the guidance also includes detailed examples illustrating the definition of contract assets and liabilities, as well as the components of the tabular rollforwards across industries.

Interim reporting requirements

U.S. GAAP is flush with examples of disclosures that are required on an annual basis but are not deemed cost effective to justify their preparation on an interim basis. These include, among others, detailed disclosures related to the components of accounts receivable and inventory, income tax disclosures, long-term debt disclosures, pension plan disclosures and operating lease disclosures. While we acknowledge that these disclosures are useful to users of our financial statements, we believe that the accumulation and preparation of these disclosures on an interim basis does not justify the incremental value financial statement users would derive on a quarterly basis.

Consistent with our conclusions regarding the proposed interim disclosure requirements for contracts, these disclosures should be limited to annual financial statements and not required to be gathered and prepared on a quarterly basis. Our industry operates, and is based on performing, under long-term contracts. We do not believe that dissecting our contracts into three-month periods in a manner suggested in the standard would provide consistent meaningful information to users about risks and trends related to our performance. We believe a longer-term view must be taken to derive any analytical value from this information. Therefore, we suggest that interim disclosures be limited to the following:

- A disaggregation of revenue in a manner similar to the annual financial statements.
- Material onerous performance obligations occurring during the period.
- Material performance obligations that have been terminated during the period.

Disclosure of forecasted financial information

We believe the requirement to disclose forecasted financial information such as the aggregate amount of the transaction price allocated to remaining performance obligations significantly expands the scope of the financial statements and is inappropriate in accounting guidance that is otherwise devoted to the reporting of historical financial results. This disclosure would result in the disclosure of material, non-public information based on projections of forward-looking data in the audited footnotes. This level of information goes beyond what is currently provided to shareholders and analysts in the typical earnings guidance, and would disclose sensitive information to our industry competitors.

Additionally, auditors would be required to audit long-range planning information that is subject to many changes and variability, and subjective estimation. Lastly, in the U.S. environment, inclusion in the footnotes would forego legal protections afforded by the Securities and Exchange Commission (SEC) under Rule 175. If the Boards view this information as necessary, we would suggest requiring it be disclosed in a qualitative discussion.
Transition

We are strongly opposed to the retrospective implementation approach advocated in the ED. The majority of our industry's long-term construction and production-type contracts span a significant number of years, with many contracts having inception dates several years prior to the earliest periods presented in the five-year Selected Financial Data table required of U.S. registrants by the SEC for inclusion in Form 10-K. Furthermore, generating the restated financial statements could require the re-creation of conditions present and judgments made on a myriad of programs and contracts years after they commenced and were performed, which would be difficult to implement. This effort would not yield a benefit in excess of the costs required to restate the financial results for many companies in our industry. Our USG customer is operating in a resource-constrained environment and many companies in our industry are being asked to control costs and develop more affordable solutions for our nation's security and defense priorities.

Restating multiple years of financial information would not be limited to revenues and costs, as it would also impact income tax expense, various balance sheet accounts, and disclosures for the respective years. While the Boards may believe that providing a sufficiently long implementation period will allow companies to dual-track information, for many participants in our industry, full retrospective application would require an assessment of literally thousands of complex, long-term contracts in process during each of the years prior to the effective date to determine the financial impact upon adoption of the new revenue recognition model. Revisions to the historical contract accounting records would need to be captured using spreadsheets and other processes outside of the general ledger systems. This would be cumbersome, time consuming and potentially less reliable to properly account for differences between the existing and new revenue recognition models. There is also the concern that the use of non-ledger systems for financial reporting may introduce new risks that require additional internal controls, required in the U.S. under Section 404 of the Sarbanes-Oxley Act, which are not inherent in current general ledger systems. We do not believe that the cost-benefit of a retrospective application would provide more useful, accurate, reliable, or comparable information for financial statement users.

To resolve these issues, we believe the proposed standard should provide application guidance that considers when retrospective treatment may be impractical. We recognize the importance of providing comparative information in order for financial statement users to understand entities' results. Therefore, we recommend that the Board allow preparers to choose between the retrospective and modified prospective transition methods according to what best fits their circumstances, while also providing investors and other financial statement users with sufficient comparative data. Further, we propose that entities be able to apply a modified prospective transition method by converting all revenue-generating contracts to the new standard on a single date forward, with accompanying disclosure of their best estimate of the comparative period impact. We believe this approach would provide investors with sufficient decision-useful quantitative and qualitative information about the effect(s) of adopting the standard on an entity's results, without the financial and process burdens to preparers associated with providing full retrospective presentation (i.e., accompanying audits of restated results; revised statutory financial reports).

Moreover, we believe allowing an entity the option to apply the proposed standard on a modified prospective basis could work effectively because the FASB has done so historically
with other major standards, such as Statement of Financial Accounting Standard No. 123 (Revised 2004), *Share-Based Payment*, and, most recently, Accounting Standards Update (ASU) No. 2009-13, *Revenue Recognition* (Topic 605): *Multiple-Deliverable Revenue Arrangements*, and ASU No. 2009-14, *Software* (Topic 985): *Certain Revenue Arrangements that Include Software Elements*. Additionally, there have been instances where the International Accounting Standards Board allowed entities to implement certain important requirements of standards only at the date of initial application, such as International Financial Reporting Standard 9, *Financial Instruments*, and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

We appreciate the continued opportunity to present our views on this subject and welcome the opportunity to meet with you in person to review them. Thank you in advance for your consideration of our comments.

Best regards,

Bill Greenwalt
Vice President, Acquisition Policy

cc: Kristen Bauer, FASB Practice Fellow (Project Lead)
    Henry Rees, IASB Technical Principal (Project Lead)