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Technical Director -- File Reference No. 1890-100 Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

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File Reference: Comments on Discussion Paper, Effective Dates and Transition Methods

Ford Motor Company ("Ford"), a global automotive industry leader based in Dearborn, Michigan, manufactures or distributes automobiles across six continents. We file consolidated U.S. GAAP financial statements with the SEC reflecting two business sectors, Automotive and Financial Services. At December 31, 2009, we reported total combined revenues of \$118 billion and debt of approximately \$132 billion. We also use leasing as a way to finance assets or to obtain use of assets we cannot purchase. At December 31, 2009, our minimum rental commitments under non-cancelable operating leases were approximately \$1.2 billion.

Ford Motor Credit Company LLC ("Ford Credit"), an indirect, wholly owned subsidiary of Ford, is one of the world's largest automotive finance companies, provides dealer and customer financing to support the sale of Ford Motor Company products. At December 30, 2009, Ford Credit's reported finance receivable assets of approximately \$78 billion and operating lease assets of approximately \$15 billion. Ford Credit also files financial statements as a separate SEC registrant.

We strongly support the convergence efforts of the Financial Accounting Standards Board and the International Accounting Standards Board (the "Boards") to align their respective accounting guidance and we appreciate the opportunity to comment on the Discussion Paper, *Effective Dates and Transition Methods*. We have provided responses to specific questions in Attachment I.

We appreciate the Boards' consideration of these matters.

Sincerely,

Susan M. Callahan

Manager, Global Accounting Policies & Special Studies

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Attachment

Ford Motor Company

Responses to Specific Questions for Comment

Q2. Focusing only on those proposals that have been published as Exposure Drafts (accounting for financial instruments, other comprehensive income, revenue recognition, and leases): How much time will you need to learn about each proposal, appropriately train personnel, plan for, and implement or otherwise adapt to each the new standard? What are the types of costs you expect to incur in planning for and adapting to the new requirements and what are the primary drivers of those costs? What is the relative significance of each cost component?

We have a disciplined policy setting process that involves multiple work streams, depending on the complexity and level of change involved with the introduction of a new financial reporting standard. The work streams involve our technical accounting group and the subject matter experts (operations and finance), as well as members of our internal control team and any related functions (tax, treasury, etc.). Evaluating the changes, identifying their impact on systems, implementing, and analyzing the results can be very time-consuming and costly. We have found it difficult to predict reliably the amount of time and cost to implement the requirements of the published exposure drafts, due to the complexity involved; the exposure drafts change transactions as opposed to balances, the guidance is inter-related, and we expect the implementation analysis and system changes to be iterative.

Our accounting technical team has spent a significant amount of time studying the above listed exposure drafts as proposed, surveying the functional teams for input, analyzing the impact to Ford, and communicating the implications to Ford's senior management and Audit Committee. Our preliminary assessment, assuming the exposure drafts are issued as written, indicated that:

- The requirements of the exposure draft on *Financial Instruments* would change the way we measure the financing of our automotive operations and the entire business of Ford Credit so fundamentally, that it has been difficult to evaluate its impact without a significant investment in an evaluation tool. At a minimum however, we have determined that it would require an investment in and/or the development of a new ERP system at Ford Credit that we estimate would cost in excess of \$100 million.
- The exposure draft for Other Comprehensive Income will have little impact or cost to Ford.
- The exposure draft on *Revenue Recognition* conceptually changes how we operate our business with warranty as a revenue generating activity and will indirectly affect metrics that the users of our financial statements and management rely on to measure our business. It will change certain metrics that the rating agencies have identified as an indicator of reaching investment grade.
- The exposure draft on *Leasing* will require extensive human resources to implement. The requirement to continually evaluate and re-evaluate our more than one million lease contracts and the identified need to develop an IT system that will accommodate the changing assumptions and their impact on measurements is expected to be equally expensive as the cost to implement the *Financial Instruments* exposure draft. We also expect there will be an additional burden on our Office of Tax Counsel who will need to invest additional time in understanding book/tax differences as a result of the changing standards for the U.S. and other jurisdictional tax filings.

Q3. Do you foresee other effects on the broader financial reporting system arising from these new standards? For example, will the new financial reporting requirements conflict with other regulatory or tax reporting requirements? Will they give rise to a need for changes in auditing standards?

We believe these changes will affect a company's compliance with certain contracts, debt covenants, and SOX processes. In addition, the changes could affect a company's corporate regulatory environment in the areas of tax, thin capitalization rules, etc. Equally important for the Boards to consider is the impact these changes will have on the market's expectations of corporate results. We view the preparation and training of the investor community to be a key work stream that needs to be included in a successful implementation plan since there is great diversity in the technical sophistication of the users of our financial statements.

Q4. In the context of a broad implementation plan covering all the new requirements, do you agree with the transition method as proposed for each project? If not, what changes would you recommend and why? In particular, please explain the primary advantages of your recommended changes and their affect on the cost of adapting to the new reporting requirements.

The proposed transition methods fail to recognize the complexity and cost of retrospective application, which we believe outweigh significantly the perceived benefits of consistency and comparability for prior periods. Following are our previously filed comments to the proposed transition methods in the exposure drafts on *Revenue Recognition* and *Leasing*.

Revenue Recognition:

The proposed guidance requires retrospective application of the new revenue recognition requirements. Although full retrospective application will achieve consistency and comparability between the reported periods, we believe that this creates significant operational challenges, especially for companies with an extensive volume of transactions. Unlike the adoption of certain new standards that require a one-time reclassification of existing debt, or the inclusion or exclusion of a discreet variable interest entity, retrospective application for revenue recognition involves reevaluating a significant volume of actual transactions.

We sell approximately five million vehicles per year globally. Retrospective application would require us either, to maintain parallel systems in order to process sales transactions under two different rules for comparative periods until the effective date, or to restate prior periods by re-analyzing the conditions of historical sale transactions. Both alternatives involve incremental costs and additional control risks. We believe that both the hard costs as well as the soft costs of retrospectively adopting the new rules will outweigh the benefits provided to financial statement users.

We suggest the Boards allow for prospective application of the guidance for transactions occurring after the effective date. Alternatively, we suggest the Boards provide companies with the option to report the change in accounting principle as a cumulative effect adjustment in the year adopted for transactions outstanding (i.e., for revenue not yet recognized) with sufficiently detailed qualitative explanations in the notes to the financial statements.

Leases:

The proposed guidance allows the use of a simplified retrospective approach to transition from the existing leasing model to the one described in the exposure draft. A retrospective approach would provide a degree of consistency and comparability between the reporting periods and between reporting entities; however, we believe that the proposed transitional guidance, even a simplified retrospective approach, would create significant operational challenges that will outweigh the benefits, especially for companies with an extensive volume of leasing transactions.

We recommend modifying the transition guidance in the exposure draft. We recommend that upon transition, lessees record a right-of-use asset and a corresponding obligation measured at the minimum rent commitments for all existing contracts. The asset and liability would approximate the minimum lease payments that are disclosed presently in the notes to the financial statements. We also recommend that the Boards modify the transition guidance such that the proposed measurement provisions apply to the lessor and lessee on a prospective basis for all new leases or renewed contracts that occur after the effective date. While acknowledging there would be a period of inconsistency, allowing for a transition to the new guidance as we suggest would achieve the Boards' objective that all leases be recorded on the balance sheet and will enable entities to do so in a cost efficient manner.

Q5. In thinking about an overall implementation plan covering all of the standards that are the subject of this Discussion Paper:

- a. Do you prefer the single date approach or the sequential approach? Why? What are the advantages and disadvantages of your preferred approach? How would your preferred approach minimize the cost of implementation or bring other benefits? Please describe the sources of those benefits (for example, economies of scale, minimizing disruption, or other synergistic benefits).
- b. Under a single date approach, what should the mandatory effective date be and why?
- c. Under the sequential approach, how should the new standards be sequenced (or grouped) and what should the mandatory effective dates for each group be? Please explain the primary factors that drive your recommended adoption sequence, such as the impact of interdependencies among the new standards.
- d. Do you think another approach would be viable and preferable? If so, please describe that approach and its advantages.

We support an implementation approach that allows for flexibility as determined by the preparer (See our response to Q6 below). However, if flexibility is not allowed for the standards that are the subject of this Discussion Paper, we believe the Boards should require a sequential approach for overall implementation. We believe that a sequential approach will allow for a more disciplined and thoughtful implementation, particularly when the guidance affects transactions rather than asset and liability balances. A sequential implementation plan would allow preparers to make a change, evaluate the change and all of its implications, and assess the completeness and accuracy of implementation for the related transactions. A sequential approach will allow us to resource appropriately as many of the same employees and IT systems will be involved in the implementation of more than one standard. A sequential approach will also allow us to reduce the complexity of too many changes at once and spend more time embedding the necessary controls for sustainable financial reporting. It is unclear that a sequential approach will reduce costs, but it will minimize complexity as some of the same transactions will also need to be considered under various new exposure drafts.

A sequential implementation plan should first require the adoption of the exposure draft for *Other Comprehensive Income*. We suggest that the exposure draft for *Leasing* follows as the exposure draft addresses some aspects of financial reporting that are most problematic. *Revenue Recognition* should be third. *Financial Instruments*, if adopted in its present form, should be last because (i) we have not identified an existing technology solution that will enable companies to capture and report data as required, (ii) it will require the development of appropriate valuation expertise, and (iii) it will be the most complex standard to explain to the investor community.

We understand there will be support for a single date approach to adopting the standards but we believe that this approach introduces unnecessary risk to the preparation of our financial statements. Change management will be difficult when interdependencies exist, not only between the standards, but between transactions. External expertise with technical accounting skills, project management know-how, valuation expertise, and software development experience that may be required to assist an entity with a single date implementation will be difficult to find.

Q6. Should the Board give companies the option of adopting some or all of the new standards before their mandatory effective date? Why or why not? Which ones? What restrictions, if any, should there be on early adoption (for example, are there related requirements that should be adopted at the same time)?

Given the pace and magnitude of the proposed change, including the adoption of international standards by global affiliates, we believe the Boards should establish a single mandatory effective date while allowing companies the option to adopt some or all of the new standards before their mandatory effective date. The accounting changes required under the exposure drafts will not affect only an entity's financial reporting organization; it will affect other departments and disciplines. Implementation will require a principled approach that displays integrity of the accounting organization and engenders active engagement for those that will need

to be involved in the implementation. For example, we presently are party to over *one million* lease contracts as either lessee or lessor. Extensive resources would be required to evaluate the contracts and measure lease-related assets and liabilities in accordance with the proposed guidance, particularly the guidance related to contingent rents, renewal periods, and lease rates. Over half of our total minimum rental commitments under non-cancelable operating leases (as lessee) relate to contracts originated outside of North America; in addition, responsibility for the lease commitments within North America exists in over nearly twenty different organizations. The proposed changes will require the development of new competencies (valuation expertise) and the establishment of new frameworks for decision-making.

As the organizational efforts required to implement the expected level of change will be unique by industry and by company, the implementation of the proposed standards can only be accomplished successfully if an entity can determine a transition plan that is most effective and efficient given their specific circumstances.

Q8. Should the FASB and IASB require the same effective dates and transition methods for their comparable standards? Why or why not?

We believe that the FASB and IASB should *absolutely* require the same effective dates and transition methods for comparable standards

Many of the local jurisdictions where our foreign affiliates operate are transitioning to IFRS as promulgated by the European Union or as promulgated by their local jurisdiction. The added cost for these transitioning jurisdictions to develop temporary processes to convert their local IFRS accounting methods back to existing U.S. GAAP would be expensive and unnecessary. We believe the level of change in the financial reporting world is unprecedented and that it would be unwise, costly, and of no value for the FASB and IASB to adopt effective dates or transition methods that are different.

We urge the Boards to adopt consistent effective dates and transition methods in order to facilitate and ease the efforts to converge to a single set of global accounting standards.