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March 13, 2012

Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, Connecticut 06856-5116

Re: File reference No. 2011-230 – Exposure Draft – Proposed Accounting Standards Update – Revenue Recognition (Topic 605) – Revenue from Contracts with Customers

Dear Technical Director:

Honeywell is a Fortune 100 diversified technology and manufacturing leader, serving customers worldwide with aerospace products and services; control technologies for buildings, homes, and industry; automotive products; turbochargers; and performance materials. Based in Morris Township, N.J., Honeywell's shares are traded on the New York, London, and Chicago Stock Exchanges.

We welcome the opportunity to offer comments on the Proposed Accounting Standards Update – Revenue Recognition (Topic 605) - Revenue from Contracts with Customers (the “ED”). We appreciate the Financial Accounting Standards Board’s and International Accounting Standards Board’s (collectively, “the Boards”) efforts to establish the principles that an entity shall apply to report useful information to users of its financial statements about the amount, timing and uncertainty of revenue and cash flows arising from contracts with its customers. We generally support the model as now proposed, however, we recommend some changes as it relates to certain matters which we identify within this letter and respectfully request that consideration be given to our recommendations.

We have provided responses to several of the specific questions raised by the Boards in the ED as follows, limiting our responses to those questions that most significantly impact our company.

**Question 4:** *For a performance obligation that an entity satisfies over time and expects at contract inception to satisfy over a period of time greater than one year, paragraph 86 states that the entity should recognize a liability and a corresponding expense if the performance obligation is onerous. Do you agree with the proposed scope of the onerous test? If not, what alternative scope do you recommend and why?*

While we agree with the concept of recognizing a liability for onerous obligations, we believe that the unit of account should be at the contract level or higher (depending on whether the entity provides its goods or services in one contract or in more than one contract with a single

customer), rather than at the performance obligation level to properly reflect the substance and overall economics of the revenue recognition arrangements. The Boards have acknowledged in the ED that many respondents expressed concerns regarding recognition of a loss for an onerous performance obligation in cases where the overall contract is profitable. However, the scope limitations in the ED only partially addressed these concerns. If a seller enters into a contract or program expecting to incur losses on certain performance obligations within that contract or program that will be offset by other profitable performance obligations within that contract or program, we do not believe up-front recognition of the loss would fairly depict the expected economic outcome on the contract or program. We believe onerous provisions would be reflected in a much more meaningful manner in the financial statements if the unit of account aligned with the underlying economics, which could be at the contract level or higher, depending on whether the entity provides its goods or services in one contract or in more than one contract with a single customer.

***Question 5:** The Boards propose to amend Topic 270 and IAS 34 to specify the disclosures about revenue and contracts with customers that an entity should include in its interim financial statements. The disclosures that would be required (if material) are:*

- 1. The disaggregation of revenue (paragraphs 114-116)*
- 2. A tabular reconciliation of the movements in the aggregate balance of contract assets and contract liabilities for the current reporting period (paragraph 117)*
- 3. An analysis of the entity's remaining performance obligations (paragraphs 119-121)*
- 4. Information on onerous performance obligations and a tabular reconciliation of the movements in the corresponding onerous liability for the current reporting period (paragraphs 122 and 123)*
- 5. A tabular reconciliation of the movements of the assets recognized from the costs to obtain or fulfill a contract with a customer (paragraph 128).*

*Do you agree that an entity should be required to provide each of those disclosures in its interim financial statements? In your response, please comment on whether those proposed disclosures achieve an appropriate balance between the benefits to users of having that information and the costs to entities to prepare and audit that information. If you think that the proposed disclosures do not appropriately balance those benefits and costs, please identify the disclosures that an entity should be required to include in its interim financial statements.*

We believe that certain amendments to the proposed disclosure requirements would achieve the objectives outlined in the ED with a more balanced cost of implementation. The overarching objectives of the new disclosure requirements are to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. We generally believe that existing disclosure requirements address these objectives; however, some enhancements which we detail below may be helpful to the financial statement users. We believe that annual disclosure is appropriate, with any material changes to be disclosed on an interim basis. This approach is consistent with the principle that interim reporting should reflect only significant changes since the last annual reporting period. Our recommendations on the specific disclosure requirements and related objectives included in the ED are as follows:

## ***1. Disaggregation of revenue***

We believe it is most useful for investors to view a company through the eyes of management. We recommend any disclosure proposed by the Boards be reflective of information about revenue that is used to manage the business, consistent with segment reporting guidance, and should not duplicate segment disclosures. We believe the combination of segment reporting and management's discussion and analysis in the existing disclosure requirements meet the objectives outlined in the ED. For example, a company currently provides:

- (i) A robust overview of its business model at the segment level;
- (ii) Revenue disaggregation by product and service revenue at the segment level and by geographic region;
- (iii) Disaggregation of significant components of revenue and expense affecting results of operations, known trends or uncertainties that it expects to have a material impact on revenue, and any material changes in revenue attributable to pricing, volume or new products.

In summary, we believe existing disclosure requirements, if applied properly, provide meaningful and decision-useful information to the financial statements users. If the Boards believe further enhancement to the existing guidance is necessary, we recommend any new requirements be principles-based and be proposed in the context of segment reporting or management's discussion and analysis for forward-looking information. We acknowledge that there will likely be less consistency among companies with a principle-based disclosure framework. However, this alternative will provide more meaningful information to the financial statement users at a reasonable cost to the preparers. Thus we believe this alternative is justified and is more desirable than prescriptive disclosures.

## ***2. Reconciliation of contract balances***

Paragraph 117 requires companies to provide a reconciliation of contract assets and liabilities from the beginning of the period to the end of the period. This creates redundant disclosure as key components to the reconciliation of contract balances are already presented in the Statement of Comprehensive Income and the Statement of Cash Flows.

The contract reconciliation in Example 19 of the Revised ASU requires a broad balance sheet roll-forward that would include all revenue recognized during the period as well as cash sales and transfers to receivables. While management monitors revenue closely, we believe most companies do not track contract assets and liabilities at the performance obligation level which is the basis for the reconciliation. If the Boards are concerned about disclosure related to revenue recognized in the current period that is affected by changes in significant estimates and judgments, we would support required disclosure on this specific matter within the final standard. If the Boards issue the disclosure requirement as is, global companies with thousands of contracts would likely be required to reconfigure their financial reporting systems at significant expense in order to meet this disclosure requirement which provides little value to management and financial statement users.

### ***3. Performance obligations***

We observed that paragraph 119 - 121 seemed to be satisfied by the current SEC requirements to disclose backlog data in management's discussion and analysis. Given the forward-looking nature of this information, we believe disclosure in the management's discussion and analysis section would be more appropriate and recommend the Boards to remove paragraph 119-121 in the final standard to eliminate redundancy.

### ***4. Onerous performance obligations***

We generally agree with the disclosure requirement outlined in paragraph 122. However, instead of requiring a prescriptive tabular reconciliation format outlined in paragraph 123, we recommend disclosure of material changes of onerous performance obligations in a qualitative manner that aligns with the way management monitors and reviews onerous performance obligations supported by quantitative data if management deems it significant to provide. We believe that an annual disclosure of onerous performance obligations is appropriate, with any material changes to be disclosed on an interim basis. Please refer to our discussion above on the unit of or accounting for onerous performance obligations.

### ***5. Assets recognized from the costs to obtain or fulfill a contract with a customer***

We support disclosure related to assets recognized from the costs to obtain or fulfill contracts with customers. However, instead of requiring a prescriptive format by main category of asset, we recommend disaggregation in a way that aligns with how management evaluates these costs (e.g., by nature of contracts if that is the way management makes decisions on whether certain contract costs are incurred). We believe that an annual disclosure is appropriate, with any material changes to be disclosed on an interim basis.

#### ***Other comments:***

#### ***Retrospective Treatment upon Adoption***

We do not agree that the proposed guidance should be applied retrospectively due to the significant implementation costs and minimal benefits of retroactive application. Honeywell has thousands of contracts with customers that cover periods in excess of ten years (we have certain contracts in excess of thirty years). These contracts are complex and it would require an extensive amount of time and resources to apply the new guidance to all of these contracts from inception. Indeed, this may be impossible for some of our oldest contracts. Additionally, restating multiple years of financial information would not only impact revenue and cost, it will also affect income tax expense, various balance sheet accounts and any related management's discussion and analysis and footnotes disclosures. Companies would incur significant expenses in meeting a retrospective implementation requirement which does not seem to appropriately balance benefits and implementation costs.

We agree that a full retrospective approach is preferable from a theoretical standpoint and should be allowed. However, as a practical alternative to entities with long-dated contracts, we recommend that the Boards allow a modified retrospective approach to balance comparability

benefits and implementation costs. For example, if an entity applies the proposed standard for the first time for the annual reporting period beginning January 1, 2015, the guidance would be applied to all outstanding contracts as of January 1, 2013 on a prospective basis which will provide three years of comparative Statements of Comprehensive Income and two years of comparative Balance Sheets for the financial statement users. Additionally, we would appreciate the Boards working with the SEC to ensure the five-year table disclosed in Item 6, Selected Financial Data, of the Form 10-K would only require retrospective application for revenue recognition for the periods presented in the Statements of Comprehensive Income and Balance Sheets. If the Boards decide to issue the transition provision as is, at a minimum, we would recommend the Boards to allow companies to account for certain contracts prospectively if it is not practical to apply the final standard retrospectively to those contracts.

In conclusion and for the reasons stated above, we do not support implementation of the ED in its current form. We recommend that the Boards:

- Reconsider the implications of the onerous performance obligation assessment whereby a loss may be recognized near contract inception on an overall profitable contract;
- Reconsider the disclosure requirements and establish a framework that will provide meaningful information to the financial statement users at a reasonable cost to the preparers;
- Modify the transition guidance to allow for a modified retrospective adoption.

Further, the effective date of the ED should be carefully considered, as significant financial reporting system modifications will be necessary irrespective of the adoption method. We recommend an effective date no earlier than January 1, 2016.

We appreciate the opportunity to present our views, and thank you for your consideration of our comments.

Sincerely,



Kathleen A. Winters  
Vice President and Corporate Controller