AIA
AEROSPACE INDUSTRIES ASSOCIATION

July 26, 2011

Ms. Elizabeth M. Murphy
Secretary
U.S. Securities and Exchange Commission
100 F. Street, NE
Washington DC 20549-1090

Subject: Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers
Exploring a Possible Method for Incorporation
A Securities and Exchange Commission Staff Paper

Dear Ms. Murphy:

Thank you for providing the Aerospace Industries Association ("AIA") an opportunity to share our view on the Staff Paper, Exploring a Possible Method for Incorporation ("the Staff Paper"), issued by the U.S. Securities and Exchange Commission ("the Commission") on May 26, 2011. 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 more than 300 manufacturing companies with 800,000 employees.

Our aerospace and defense member companies are major suppliers to the U.S. Government and our interest in International Financial Reporting Standards ("IFRSs") is significant. We are committed to the highest levels of financial reporting for the benefits of investors in the U.S. market. We also have significant respect for the work of our members and the Commission for their continuing efforts to improve the transparency and clarity of accounting requirements and related disclosures.

Overall, we agree that a single set of high-quality global accounting standards applied consistently across all jurisdictions would benefit the global capital markets and U.S. investors. However, we believe there could be situations where it would be necessary for U.S. GAAP to diverge from IFRSs in order for the standards to be operational for U.S. companies. We generally agree with the "Condorsement" approach described in the Staff Paper and believe that it sets forth a potentially viable, cost-effective alternative for incorporating IFRSs into the U.S. financial reporting system. We agree with the proposal to retain the Financial Accounting Standards Board ("FASB") as the national standard setter for the U.S. We also agree with retaining U.S. GAAP as the basis of reporting in the U.S. Notwithstanding our general support for the "Condorsement" approach, we have certain concerns that we believe should be addressed before the Commission and the FASB embark on any plan to incorporate IFRSs into U.S. GAAP. We believe it is important for the FASB to have the ability to provide input to the International Accounting Standards Board's ("IASB") ongoing standard-setting agenda and conduct sufficient due process prior to incorporation of IFRSs into U.S. GAAP to ensure

Aerospace Industries Association of America, Inc.
1000 Wilson Boulevard, Suite 1700 Arlington, VA 22209-3928 (703) 358-1000 www.aia-aerospace.org

suitability of standards for the U.S. marketplace. Furthermore, the FASB should retain authority to react to U.S.-specific events that require immediate standard setting (e.g. EITF 01-10 Accounting for the Impact of the Terrorist Attacks of September 11, 2001), if and when necessary.

Our concerns, including but not limited to governance over the standard-setting process, impact of standard-setting on U.S. constituents, timing and pace of standard-setting, and impact on the regulatory environment for U.S. government contractors, are discussed in more detail below.

Governance over the standard-setting process – The FASB has played and will continue to play an instrumental role in the completion of the Memorandum of Understanding ("MoU") projects included in Category 1 of the transition plan. It is unclear what role the FASB would play with respect to the standards included in Categories 2 and 3. For example, it appears that IAS 19 Employee Benefits that was recently amended by the IASB would be considered a Category 2 standard. From the Staff Paper, it is unclear what role the FASB would have played in the standard-setting under the "Condorsement" framework despite the fact that the new rules, if incorporated into U.S. GAAP, would have a significant impact on pension accounting for U.S. companies. The Staff Paper outlines several possible ways in which the FASB could continue to participate in the IASB's standard-setting process. As the FASB would be only one of numerous constituents of the IASB, we are concerned that the FASB's influence in the global standard-setting process could be diminished and result in less comprehensive and decision-useful standards for U.S. constituents. Furthermore, the U.S. market has consistently shown a bias towards more detailed standard setting, driven primarily by the litigious nature of the current U.S. legal environment. Representatives of the IASB have indicated that as a global standard-setter they have a responsibility to consider the needs of other jurisdictions. However, if standards as issued by the IASB do not contemplate the peculiarities of the U.S. reporting environment, changes would need to be made prior to incorporation into U.S. GAAP and the benefit of global standard-setting would be lost. We recommend the Commission and the FASB work with the IASB to develop an ongoing, formal role for the FASB similar to the knowledge-sharing and collaboration efforts under the MoU. In this role, the FASB would have the ability to influence standards issued by the IASB as well as provide input to the IASB standard-setting agenda such that emerging accounting issues in the U.S. are addressed in a timely manner and U.S. investors are protected. We also recommend that the IASB and FASB together review the standard-setting agenda to determine if additional differences between U.S. GAAP and IFRSs should be included in Category 1 of the transition plan.

Impact of standard-setting on U.S. Constituents – The Staff Paper highlights that the FASB will "retain the authority to modify or add to the requirements of the IFRSs incorporated into U.S. GAAP". However, later in the Staff Paper the Commission notes that "modifications should be rare and generally avoidable". Currently, there are some substantial differences between U.S. GAAP and IFRSs such as the accounting for inventory, intangible assets, and research and development costs. It appears that the related standards would fall into Category 3 as they haven't been identified as MoU projects and are not on the current IASB standard-setting agenda. If the presumption is that modifications of IFRSs for incorporation into U.S. GAAP would be rare, it is unclear what due process would be followed for Category 3 standards. Without appropriate due process, the incorporation of Category 3 standards would appear to be largely perfunctory. We recommend that the Commission clarify the role of due process in the incorporation of Category 3 standards and the FASB retain its formal process for U.S.

constituents to provide feedback on **all** changes to U.S. GAAP. We also recommend that the Commission characterize the likelihood of changes occurring during the endorsement process as "when necessary" rather than "rare" and in "only unusual circumstances" and establish a framework for determining when divergence between IFRSs and U.S. GAAP would be appropriate.

Timing and pace of standard setting – The time-phased approach outlined in the Staff Paper would allow for more thorough analysis and implementation of each standard, allow the benefits of prospective application to be thoroughly considered before standards are issued, and allow the Commission and FASB to work with other regulatory agencies to align anticipated changes to U.S. GAAP with those agencies' accounting rules and regulations. We agree with a time-phased approach; however, the Staff Paper provides an example timeframe of five to seven years for a full transition to IFRSs, which may not be realistic for most U.S. companies. Practically speaking, assuming there were 15,000 pages of Category 3 standards in the Accounting Standards Codification, companies would have to evaluate and implement changes from approximately 2,000 to 3,000 pages of accounting literature on an annual basis to achieve transition to IFRSs within five to seven years. In addition to the endorsement of Category 3 standards, we would expect to be implementing key MoU (Category 1) projects and (Category 2) projects on the IASB's agenda during that same five to seven year timeframe. Notwithstanding questions regarding the feasibility of this, we believe more study is necessary to assess the costs and benefits of this level of effort. As such, we recommend the Commission and the FASB develop a detailed transition plan that is exposed for comment by U.S. constituents, with careful consideration given to whether the proposed timing and sequence of adoption is reasonable with respect to the effort and cost to implement. In developing a detailed transition plan, we recommend that the Commission and the FASB establish a standard-setting pace that focuses on the issuance of high-quality standards that are operational for U.S. companies and gives consideration to the resources available for implementation.

Unique regulatory environment for U.S. government contractors – One advantage of the "Condorsement" approach highlighted in the Staff Paper is that by retaining U.S. GAAP as the basis for financial reporting for U.S. issuers, the complexities associated with changing references to U.S. GAAP within U.S. laws, contractual documents, regulatory requirements and guidelines, and other similar documents, would be mitigated. While we agree in part with this assessment, we believe the adoption of IFRSs into U.S. GAAP will not accommodate all instances where U.S. GAAP is referenced. For example, as U.S. Government contractors we are subject to cost accounting regulations such as the Cost Accounting Standards ("CAS") and the Federal Acquisition Regulations ("FAR"), which provide specific rules for the measurement, accounting period assignment, and allocation of contract costs. As these rules are not comprehensive sets of accounting rules, U.S. GAAP is applied to certain costs for cost accounting purposes as well as for financial accounting purposes. Thus our concerns are two-fold. First, the adoption of IFRSs and the inherent differences between IFRSs and CAS/FAR could generate additional complexities and cost to U.S. Government contractors due to an increase in the number of adjustments required between cost accounting and financial accounting records. Second, the adoption of IFRS could change the measurement, assignment, and allocation of costs for cost accounting purposes, impacting the costs that can be allocated and charged to U.S. Government contracts. We recommend the Commission and FASB work with other regulatory agencies (e.g., the Office of Federal Procurement Policy and the Procurement Executives in DOD, GSA and NASA) to align their accounting requirements with IFRSs so as to minimize differences between cost accounting and financial accounting.

One approach may be to coordinate roundtable discussions between issuers and rule-makers in other regulatory agencies to discuss unintended impacts and develop a plan to mitigate those impacts if IFRSs were to be adopted.

We also recommend that the Commission clarify how the funding of both the FASB and IASB would work under a "Condorsement" model and consider how the "Condorsement" approach could interact with the FASB's assessment of whether private companies should have their own set of standards.

We appreciate the opportunity to present our views on this subject and welcome the opportunity to meet with in person to review them with you. Thanks you for your attention and consideration.

Best regards,

Richard K. Sylvester

Richard K. Sylvester
Vice President, Acquisition Policy