NORTHROP GRUMMAN

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Ms. Elizabeth M. Murphy, Secretary
Securities and Exchange Commission
100 F. Street, N.E.
Washington DC 20549- 1090

Subject: File Number 4-608, Release No. 33-9134, *Notice of Solicitation of Public Comment on Consideration of Incorporating IFRS Into the Financial Reporting System for U.S. Issuers*

Dear Ms. Murphy:

We appreciate the opportunity to provide our comments on the *Notice of Solicitation of Public Comment on Consideration of Incorporating IFRS Into the Financial Reporting System for U.S. Issuers* (the "Release"), issued by the Securities and Exchange Commission (the "Commission"). The intent of our letter is to address our position on the Release, from our perspective as a leading provider of systems, products, and solutions to U.S. Government and commercial customers, also taking into consideration the FASB and IASB convergence projects currently underway.

In our letter dated April 7, 2009 to the Commission about the International Financial Reporting Standards ("IFRS") Roadmap, we expressed support for the use of a set of high-quality globally accepted accounting standards by preparers of financial information. We also supported the continued convergence of existing FASB/IASB standards that is underway now and targeted for substantial completion of key projects sometime next year. However, we continue to question whether conversion from the well-defined and long-established United States generally accepted accounting principles ("U.S. GAAP"), and the large body of supplemental literature, to the relatively new, principles-based approach of the IFRS will help achieve this objective anytime soon, particularly in view of the significance of the key standards that are presently under consideration by the FASB/IASB working group and are expected to be implemented in the near future. We believe that registrants with the Commission will need sufficient time to assimilate and absorb the consequences of the converged standards that are planned for issuance in the 2010-2011 timeframe before commencing the more complicated and extensive task of a complete conversion to IFRS. Moreover, it is un-clear at this time that the new standards expected to be issued in 2010-2011 will, in fact, be truly converged standards, such that a conversion to the IFRS version of these standards will mean changing again that which will have been recently changed.

More broadly speaking, we believe the Commission needs to address the benefits of conversion and the urgency to proceed along an accelerated timeline, particularly given the additional financial burden that would be placed on registrants during the difficult economic environment in which we now find ourselves. Our concerns have led us to conclude that the most rational approach for achieving the objective of transitioning to a single set of high quality globally accepted accounting standards for U. S. GAAP compliant companies is through the natural convergence process that will occur as the aforementioned new standards are issued and adopted. As we near the end of that transitional period, we should evaluate what differences still exist between U. S. GAAP and IFRS and determine the path forward for reaching a converged set of standards.

We have reviewed the background and key considerations outlined in the Release for the following three main categories, and will address our observations in the remainder of this response:

- Contractual Arrangements
- Corporate Governance; Stock Exchange Listing Requirements
- Statutory Distribution Restrictions and Other Legal Standards Tied to Financial Reporting Standards

We did not undertake an exhaustive review in response to your request, but did seek input from our functional organizations responsible for overseeing the categories of activities contained in your notice of solicitation.

Contractual Arrangements (Other than Customer Contracts)

We believe that the transition to IFRS would require us to make an extensive review of our debt arrangements, lease agreements, employee compensation arrangements (including annual and long term incentive plans as well as pension benefits), insurance contracts, and supplier contracts to determine the extent to which such arrangements would need to be modified to permit the use of IFRS. Such a review would be a substantial undertaking as we have thousands of contract documents that would have to be scrutinized in this process. Where we identify impacts, we would have to develop and execute a plan for seeking and obtaining the requisite modifications to the documents so that they will be in compliance with IFRS. We would incur significant incremental internal staff costs associated with conducting the review and negotiating new arrangements and estimate that the total process could take from 36 to 48 months to accomplish. However, with adequate notice and a sufficient transition period, we believe such amendments could be accomplished with minimal incremental direct costs to the company from counter parties, for requesting consideration of such changes.

Corporate Governance; Stock Exchange Listing Requirements

Our primary concern in this area is related to the significant effort that we will have to undertake to train our internal management staff who extensively utilize U. S. GAAP in the daily execution of their responsibilities. As a defense contractor, we have thousands of contracts with U. S. Government customers that require us to provide financial information to the customer and this information is utilized internally in the daily management of our business. Unlike some businesses, we use financial information extensively throughout our company, which will require us to incur training costs for many personnel including non-accountants. In our business, it is important for non-accountants to understand accounting treatments at a high level for many areas, in order to avoid unintended accounting results that may result from negotiating a deal without that knowledge. Some key areas include leases, joint ventures, collaborative arrangements, guarantees, embedded derivatives, fixed asset procurement, and contracts with a foreign exchange component. Furthermore, many of the accounting changes will likely result in the need to use our systems differently in addition to having to maintain at least two sets of ledgers during the transition period. This will be further complicated if other regulatory bodies such as the Internal Revenue Service (“IRS”) and U.S. Government procurement departments and agencies (such as the Department of Defense (“DoD”), U.S. General Services Administration (“GSA”), and the National Aeronautics and Space Administration (“NASA”)), have a later transition date or decide not to transition at all. As a result, many of the organizations within our company will require formal training in the use of the new accounting standards. The following organizations within our company will require some formal training:

- Financial accounting and reporting
- Tax accounting
- Government accounting
- Individuals involved in contractual negotiations
- Information technology (“IT”)
- Planning
- Treasury
- Subject matter experts (i.e. the facilities department will be instrumental in determining asset componentization)

We are also likely to incur significant additional IT related costs. These costs include personnel time spent evaluating the best systems solution, the costs to purchase this solution whether it be buying new software or updating instances of existing software, and the time/cost of training personnel to use these systems.

In addition, as a public company with shares trading on the NYSE, our Board of Directors will need to become familiar with IFRS. We will also need to determine the training required for members of the Audit Committee to carry out their governance responsibilities, as well as training required for those members of the Audit Committee with “accounting or related financial management expertise” to maintain that status. The primary impact of all of this training will be the incremental costs of conducting the training, and the lost productivity of our personnel resulting from their absence for purposes of training. Further, we recommend that the Commission work with the NYSE to establish guidance on the type and amount of training that individuals should complete in order to maintain their status as a financial expert.

Statutory Distribution Restrictions and Other Legal Standards Tied to Financial Reporting Standards

There are two critical areas that will impact us with regard to this area and these relate to the impacts we can anticipate in accounting for income taxes and in complying with the Federal Acquisition Rules (“FAR”) and the Cost Accounting Standards (“CAS”) for defense contractors. The income tax accounting issue that we foresee is related to the fact that certain IRS income tax reporting requirements depend upon the use of U. S. GAAP. Unless the IRS adopts IFRS concurrent with our adoption of IFRS, we could be caught in a situation where we have more differences between tax and book accounting that will have to be dealt with in our income tax accounting practices and this will undoubtedly create additional work and add additional complexity to an area that is already fairly complex. Similarly, there are several areas in IFRS today that directly conflict with existing FAR and CAS requirements (for example, adjusting assets to fair value is not permitted under FAR and CAS), and there are many aspects of the FAR and CAS that look to U. S. GAAP for accounting guidance where such guidance is not provided in the FAR and CAS. Similar to the income tax situation, unless the FAR and CAS adopt IFRS concurrent with our adoption (which we believe to be unlikely), this will require us to account for differences between IFRS and the FAR/CAS accounting requirements. This will create an additional workload on our accounting personnel as they will have to maintain two sets of books on our government contracts. Both of these issues could put pressure on our IT resources and may require modification of our IT systems in order to permit the duplicative accounting that would become necessary. All of this effort will require additional time by our accounting personnel that is not presently anticipated in our internal costing models for contract profitability and will likely have an adverse affect on our overall financial performance in the near term while we attempt to deal with the increased workload.

Concluding Remarks

As indicated above, the 60-day response period did not allow us adequate time to conduct an in depth cost analysis of the potential impacts of an IFRS conversion on the affected areas. Additionally, it was difficult to quantify an exact estimate of cost because we don’t have information regarding key assumptions that are needed to estimate the effects of certain elements that we have identified as areas of concern. However, we believe that the costs for the items identified above will be significant, as will the disruption to our business from the loss of productivity of our personnel as we transition to the use of IFRS. Although we do not have an exact methodology for quantifying the monetary effects that IFRS conversion will have at this preliminary point in time, we do know from rough estimates that implementation costs could easily reach upwards of $15-25 million for an organization of our size and complexity. These costs include actual dollar value costs incurred for training, resource acquisition, and systems modifications as well as an estimate for the impact to lost productivity for the time spent training and planning for IFRS adoption.

Furthermore, it is important to note that the implementation costs for a business in the U.S. will likely exceed what it would cost a comparable organization in other areas of the world, due to a stricter regulatory environment in the U.S. This impact is further magnified for Defense Contractors, like Northrop Grumman, who must comply with other regulatory bodies as described above. All of this would, at a minimum, argue for the need for a transition period sufficiently long enough to enable adequate planning for the transition effects, and a period over which to spread the cost impacts so as to not adversely impact a single accounting period.

We also recommend and request that if the Commission elects to adopt IFRS that they work with regulatory bodies such as the IRS, DoD, GSA, and NASA to determine a concurrent effective date. We recognize that some regulatory bodies have started researching the impact of IFRS, but no formal plans have been announced as to their intent. Just as companies will need to collaborate between their functional organizations to make the adoption process as effective and efficient as possible to minimize the financial impact to their shareholders, we feel that the Commission has the same duty to support registrants, by collaborating with other regulatory bodies to ensure a smooth transition.

Finally, we recommend and request that the Commission also discuss the questions from the Release with the many countries that have already adopted or are in the process of adopting IFRS. Integration of those observations into the adoption and/or convergence plan of the United States will be essential in moderating the amount of time and money that U. S. companies will need to incur to make the changes. A sharing of lessons learned in the process will also be of great assistance to U. S. companies and avoid the need to "re-invent the wheel" and result in a much more efficient process.

We appreciate the opportunity to comment on this Release, and would be pleased to discuss further our company's perspective.

Respectfully,

Kenneth N. Heintz
Corporate Vice President
Controller and Chief Accounting Officer