

September 27, 2016

Mr. Brent Fields
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

Subject: File No. S7-06-16

Dear Mr. Fields:

We appreciate the opportunity to comment on the Securities and Exchange Commission's (the "Commission") Concept Release regarding the business and financial disclosure requirements in Regulation S-K (the "Concept Release"). Northrop Grumman is a leading global security company with annual sales of \$24 billion and approximately 65,000 employees. We provide products, systems and solutions in autonomous systems; cyber; command, control, communications and computers, intelligence, surveillance, and reconnaissance; strike aircraft; and logistics and modernization to government and commercial customers worldwide.

We commend the Commission for its continued focus on improving the effectiveness of disclosures and considering ways to modernize how information is communicated to investors. Since Regulation S-K was adopted over thirty years ago, there have been significant changes to the environment in which we operate, including technological advancements and requirements for reporting under US generally accepted accounting principles ("US GAAP").

Due to the broad scope of the Concept Release and Regulation S-K, we have focused our comments on areas we believe will provide the most meaningful changes for investors, without placing an undue burden on preparers.

Disclosure Framework

- We believe the existing framework under Regulation S-K provides a strong foundation for effective disclosure; however, certain aspects are duplicative with US GAAP and could be revised to allow companies more flexibility to tailor disclosures in a way most meaningful to investors. As such, we are supportive of a more principles-based approach to disclosure which allows companies to provide industry or company-specific information that is not obscured by boilerplate disclosures resulting from more prescriptive requirements. In adopting a more principles-based approach, we encourage the Commission to provide additional context and guidance as to the objective of disclosure requirements, rather than prescriptive rules.
- The current disclosure regime includes certain requirements that were adopted in response to specific market developments. We believe the Commission should consider including automatic sunset provisions for disclosures added in response to specific market occurrences. The Commission should review these requirements at periodic intervals and take formal action to permanently require the disclosures if they continue to provide useful information to investors. For example, the requirements in Item 201, *Market price of and dividends on the registrant's common equity and related stockholder matters*, Item 301, *Selected Financial Data*, and Item 302, *Supplementary Financial Information*, do not provide new or additional information to investors not otherwise available and may have benefited from a sunset provision.
- Materiality should be the primary factor used to determine whether disclosures are necessary and if the total mix of information sufficiently informs investors. The Supreme Court has held that information is material if there is a substantial likelihood that a reasonable investor would consider the information important. We believe this definition continues to provide an appropriate guideline for determining materiality. Specific dollar or percentage thresholds for disclosure, such as the requirement under S-K Item 404 to disclose related party activity greater than \$120,000 and the disclosure of legal proceedings for claims that exceed 10% of current assets should be eliminated.

Information for Investment and Voting Decisions

- *Business Description* - We believe Item 101 disclosures are valuable for investors and the cost of providing the information is low, as it typically only requires updates for material changes. However, we recommend the Commission encourage greater cohesion between Item 101, MD&A, and Footnote disclosures to increase effectiveness and reduce redundancy. For example, financial information about segments is required to be disclosed under Item 101(b) in MD&A but is also required in the footnotes to the financial statements. This recommendation supports the Commission's proposed rule, *Disclosure Update and Simplification*, which is intended to simplify compliance efforts, without significantly altering the total mix of information provided to investors.

Additionally, US GAAP Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contract with Customers*, is effective for fiscal years beginning after December 15, 2017. ASU 2014-09 includes expanded revenue disclosures such as disaggregation of revenue, remaining performance obligations, and significant judgments related to revenue recognition. These disclosures will duplicate some of the disclosures in Item 101, resulting in an opportunity to revise the requirements in Item 101 to reduce redundancy.

- *Government Contracts* - Item 101(c)(1)(ix) requires disclosure of any material portion of the business that may be subject to renegotiation of profits or termination of contracts or subcontracts at the election of the Government. Northrop Grumman conducts most of our business with the US government. As such, we disclose information regarding our government contracts throughout our filings, including in the business description, risk factors, and MD&A sections. We disclose information we believe is most important to investors and do not believe prescriptive rules on government contracts or regulations enhance an investor's understanding of our company. To the extent government contracts or regulations are material to companies in other industries, we believe existing disclosure requirements are sufficient to allow investors to make informed decisions and more prescriptive requirements would not provide a significant benefit to investors.

- *Selected Financial Data and Supplementary Financial Information* - We believe the requirements in Item 301 to disclose selected financial data for the last five fiscal years and Item 302 to disclose quarterly data should be eliminated. Most items required by Items 301 and 302, including data for the earliest two years in the five year table, are readily accessible through quarterly and annual filings on EDGAR and company websites.
- We also believe Item 303 should be modified to require only a discussion of the most recent two years, as historical information is readily available to users of the financial statements. This change would be consistent with the ongoing FASB and SEC disclosure effectiveness and simplification projects.
- *Management's Discussion and Analysis* - The principles-based disclosures in MD&A should be retained as they result in disclosure of the most significant items impacting a company during a given period. We believe current requirements provide sufficient guidance on performance metrics and other key variables important to a business. However, if additional guidance is considered necessary, we recommend a principles-based approach, as more prescriptive requirements could result in disclosure of extraneous information that distracts from the core business. Consolidation of the various sources of guidance into a single source would be beneficial to preparers of the financial statements.
- *Product/Service Disclosures* - As previously noted, ASU 2014-09 will be effective for fiscal years beginning after December 15, 2017 and includes expanded revenue disclosures. These new disclosures include disaggregation of revenue into categories that depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. Categories to be considered for disclosure include type of goods or services, as applicable, by segment. We recommend the Commission consider reducing or eliminating the current requirements to provide an analysis of product and service sales and operating costs by segment in MD&A in light of the new disclosure requirements around revenue recognition.

- *Subsidiaries* - We do not believe Item 601(b)(21) should be revised to require registrants to disclose information about all subsidiaries. It is not uncommon for companies to have a significant number of subsidiaries and additional disclosures related to each one would result in excessive disclosure that would provide minimal value. We believe existing requirements to disclose information by segment provide financial information at a level of detail that sufficiently informs investors.
- *Critical Accounting Estimates* – Company disclosures of critical accounting estimates in MD&A are often repetitive with the disclosure of significant accounting policies in the financial statement footnotes. We encourage the SEC and FASB to work together and revise the disclosure requirements for significant accounting policies to incorporate the key elements of critical accounting estimates currently included in MD&A. This will eliminate the overlap that currently exists and provide a more streamlined set of disclosures for financial statement users.
- *Frequency of Interim Reporting* – We believe the Commission should maintain the requirement to issue quarterly financial reports. More frequent filings would result in a significant increase in costs for preparers.
- Existing requirements for auditor involvement in the financial statements should not be modified. In our opinion, modification of existing guidelines for auditor involvement would increase costs without providing a commensurate benefit to investors.

Presentation and Delivery of Important Information

- *Structured Disclosures* - As an SEC reporting company, we are required to tag our financial statements using XBRL. While this is a complex process, we understand how it facilitates a more granular and timely analysis of financial information. However, as there is significant variation in the form and content of MD&A, proxy statements, and annual reports across companies, we do not believe that expanded XBRL requirements would result in a significant benefit to investors. XBRL tagging provides for some flexibility and the use of extended tags to capture items that are company specific. These unique tags coupled with the variation in form and content of MD&A, proxy statements, and annual reports would likely result in data that is not comparable. Additionally, we anticipate that costs to perform initial set-up, training of non-accounting personnel to tag documents such as the proxy, and ongoing tagging of other information would be significant.

Please contact me if you have any questions or if you would like to discuss these comments.

Respectfully,

A handwritten signature in blue ink that reads "Michael Hardesty". The signature is written in a cursive, flowing style.

Michael Hardesty
Corporate Vice President, Controller and Chief Accounting Officer