NORTHROP GRUMMAN

Kenneth N. Heintz
Corp. Vice President, Controller
& Chief Accounting Officer
1840 Century Park East
Los Angeles, CA 90067

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

Subject: File Number S7-27-08, IFRS Roadmap

Dear Ms. Murphy:

We appreciate the opportunity to provide our comments regarding the proposed rule "Roadmap For The Potential Use Of Financial Statements Prepared In Accordance With International Financial Reporting Standards By U.S. Issuers" (the "Roadmap" and "IFRS"). We also appreciate the Securities and Exchange Commission's (the "Commission") decision to extend the comment period for this proposed rule, enabling issuers with a December 31 year-end date, such as ourselves, sufficient time to carefully review the Roadmap and provide a well considered response.

Overall, we found the Roadmap and related questions provided a reasonable platform to solicit input from interested parties, which we believe will enable the Commission to determine further actions. The intent of our letter is to address aspects of the Roadmap which we consider of most importance given our industry as a leading provider of systems, products, and solutions to government and commercial customers, the International Accounting Standards Board ("IASB") and Financial Accounting Standards Board ("FASB") convergence projects now underway, and the proposed timing and content of the Roadmap.

We strongly support the Commission's perspective that it is highly desirable that there be a single set of high-quality globally accepted accounting standards for use by preparers of financial information. We also support the continued convergence of existing IASB/FASB standards. However, we question whether a near-term 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, particularly in light of the significance of the key standards that are presently under consideration for convergence by the FASB/IASB working group. We believe the Commission has not adequately scrutinized the benefits of conversion and the urgency to proceed along the proposed timeline, particularly given the uncertainty regarding the timing and outcome of IASB/FASB convergence projects and the additional financial burden that would be placed on issuers during the current economic crisis.

Our concerns, described in more detail in the body of this letter, have led us to conclude that IASB/FASB convergence is the most favorable approach to enable U.S. market participants to realize the benefits of high-quality global accounting standards.

IASB and FASB Convergence

We commend the efforts by the IASB and FASB to jointly develop common, high-quality standards and believe the 2008 progress report on the 2006 Memorandum of Understanding ("MoU") reinforces their commitment to finalize critical standards by 2012.

However, the IASB and FASB also acknowledged planned completion dates for all joint projects are subject to change in consideration of inputs received throughout a project's development, which is consistent with the observation made in the initial MoU that convergence can best be achieved through the development of high-quality standards that could be used for both domestic and cross-border financial reporting over time. Thus, actual completion dates may extend past 2012, into critical IFRS transition years, under the proposed Roadmap.

Each of the critical work projects is likely to affect decisions made by companies regarding future accounting practices. As a result, most companies will be reluctant to invest significant effort toward an IFRS implementation when faced with probable additional costs to perform rework when the standards now under consideration are finalized.

For example, the converged revenue recognition standard could have a significant impact on companies like ours that use percentage of completion accounting. The recently issued IASB/FASB joint work plan discussion paper 'Preliminary Views on Revenue Recognition in Contracts with Customers' does not address several unique aspects of accounting requirements for government contractors, and we understand other companies believe there are significant gaps impacting their industries as well. Accordingly, finalization of this standard may take more time and a greater coordinated effort than initially planned in order to meet the needs of all issuers and other interested parties. This could result in the adoption of one set of standards on implementation of IFRS, and then adoption of yet another standard for the same accounting contracts, increasing confusion amongst investors and causing excessive and unnecessary work and expense.

We believe improved communication with industry associations, such as the Aerospace Industries Association, along with accounting firms, regulators and other interested parties during the initial drafting of preliminary views and remaining stages of standard development is critical. We also believe there should be stronger emphasis and increased accountability for individual work teams to manage projects in an efficient and timely manner. We believe that if the Commission were to focus on what it can do to expedite and support the resolution of the 12 projects now underway by the joint IASB/FASB working group, and to support the changes in U.S. regulatory practices that are needed in order to implement the change to a new set of standards for U.S. registrants, such efforts would lead to an earlier opportunity for convergence to occur, and provide for a less punitive outcome for U.S. registrants who would otherwise be facing conflicts in other regulatory filings. Furthermore, we believe that the Commission should instruct the FASB to devote the majority of its standard setting activities toward resolving the projects now underway by the joint working group and to cease any activities related to the development of new GAAP standards or interpretations of existing GAAP standards except those needed to resolve any critical issues that might arise.

Impact to Government Contractors

As a government contractor, we are subject to a complex accounting body of practice, encompassing U.S. GAAP, industry-specific accounting guides, and U. S. Government regulatory requirements for contractors (such as, Federal Acquisition Rules ("FAR"), and Cost Accounting Standards ("CAS")). Our industry has been highly successful integrating these various requirements into our accounting practices and, as a result, our financial statements are readily comparable across companies, while meeting the needs of the U.S. Government. Adaptation of many inter-dependent rules to IFRS requires cooperation and consensus among many factions, which can take several years. Similar issues are faced by any company that is in a quasi- or fully regulated industry. Moreover, the Commission's own requirements for filings by registrants will also have to undergo substantial modification to become compliant with a newly converged set of IFRS standards, and much of the supporting guidance and documentation will become obsolete under such new standards leaving preparers to fend for themselves in many areas.

In the near term, lack of certainty regarding the proposed IFRS conversion decision, potential impacts from a 2014 mandatory implementation date and the resulting potential effects on CAS could mean that we will be unable to accurately predict our future overhead costs and/or the accounting principles that will be used to measure such costs yet we need to provide our U.S. Government customers with accurate forecasts of future costs for contracts with periods of performance in 2014 and thereafter. This is a very real concern today as we already have and are bidding on contracts that are anticipated to be in effect for five or more years into the future. Changes in accounting standards could also result in losses within our industry if the costs of IFRS conversion cannot be recovered as an allowable cost under our government contracts based on existing rules. Given that our primary customer and competitors are domestic and the potential lack of recoverability for conversion costs, we are concerned companies in our industry will invest substantial effort and realize little or no benefit, and the change could, in fact, reduce comparability.

We believe the actions required by regulatory agencies to adapt rules with U.S. GAAP inter-dependencies to IFRS should be considered specifically as separate milestones that need to be addressed before conversion can occur. The role of federal and state regulators is discussed briefly as an additional area for consideration in the Roadmap, but there should be stronger emphasis on the importance of commitments by the Internal Revenue Service, CAS Board, FAR Council, and other governmental agencies to evaluate the impact of IFRS on their regulations, computer systems, and processes.

Roadmap Considerations

While we recommend the Commission focus its attention on IASB/FASB convergence, we believe the Roadmap, if adopted, should more fully define actions, timelines, and resources needed to achieve a successful transition to IFRS. We recognize that the path to achieving a single set of high-quality globally accepted accounting standards utilizing a convergence approach would likely present an unacceptable timeframe to achieve the Roadmap's proposed milestones for mandatory IFRS conversion by large issuers.

Accordingly, we suggest that the Commission include in its Roadmap clearly defined periodic process milestones for evaluating the status of the IASB/FASB convergence activities as a means for determining when sufficient convergence will occur to allow for the setting of a date certain for conversion of the remaining standards. Under such an approach, the convergence of those critical standards now under consideration will serve to stabilize the IFRS platform and allow for conversion to occur with less likelihood for subsequent instability in financial reporting.

As mentioned above, we believe the identified milestones are incomplete and should include actions to ensure regulatory agencies are evaluating and changing their rules. In addition, although changes to U.S. industry accounting guides are discussed in general terms, a comprehensive plan is needed to ensure companies can integrate the guides into their overall IFRS implementation.

We believe that following the date certain, conversion will require a minimum five year transition period for large companies to address complex computer systems, application of accounting standards for multiple product lines, and changes in accounting and reporting practices across many locations. In our case, contracts in each line of business must be examined individually to ensure proper accounting. Companies would need to have already started their conversion processes by now if the Commission intends to mandate a 2014 adoption date to ensure an efficient and well executed implementation. Given the uncertainty surrounding the 2014 date, and the current economic conditions, it is unlikely that many registrants have devoted the substantial financial resources and effort needed to ensure a smooth transition date of 2014, and we suspect that most registrants are waiting for more definitive direction from the Commission before they commit the resources needed to complete such a conversion.

Furthermore, the requirement for three years of financial statements would require companies to be well into their implementation plans by now to enable preparation of IFRS compliant financial statements as of January 1, 2012. This potential requirement (three years of financial statements) places a huge financial and resource burden on companies that could ultimately be unnecessary or deferred depending on the Commission's decision in 2011. We believe two years of financial data as required by IFRS 1, First Time Adoption of IFRS, will ease the transition effort and expense, reduce the necessity for redundancy in systems and controls, and provide sufficient information for users of financial statements.

With respect to early adoption, we believe lack of a definitive rule and date certain regarding mandatory adoption provide a strong disincentive for eligible issuers to elect early adoption. Such companies face a significant risk given the evolving IASB/FASB standards and lack of certainty regarding mandatory adoption, particularly if they are required to revert to U.S. GAAP should the Commission ultimately decide to retain current requirements.

As an alternative, the Commission may consider a graduated implementation of IFRS for U.S. registrants based on the preparedness of individual industries, given such factors as regulatory interdependencies and the extent to which the industry has international competitors and customers.

Overall, we believe the lack of clarity and completeness of the measurement of milestones and the absence of a date-certain mandate will jeopardize companies' ability to effectively execute ongoing convergence activities as well as a thorough, controlled, and cost-effective transition to IFRS that will enhance financial reporting and ensure the credibility of the U.S. IFRS implementation as a whole.

Communications Steering Committee

Because we see the process of moving to a single set of high-quality globally accepted accounting standards as a multi-faceted activity that will take place over an extended timeframe, we believe that an ongoing communication plan needs to be established by the Commission to provide needed guidance and information to all affected parties. The Commission's communications plan should provide for clearly defined responsibilities regarding monitoring and measurement of the critical milestones set by the Commission, and describe the process to be utilized to provide strong oversight throughout the measurement and transition period. To assist the Commission in this undertaking, we recommend the Commission establish a steering committee comprised of a variety of interested/affected participants, including issuers, accounting firms, regulatory agencies, and educators to provide insight into the progress that is being made at various levels as work toward the ultimate objective occurs.

Summary

We recognize the Commission is faced with a difficult task in the years ahead to restore investor confidence and fully support the commitment made by the Commissioner to modernize the regulatory system and strengthen its enforcement efforts. We also appreciate the extensive effort the Commission has put forth to carefully consider IFRS as an approach to achieving a single set of high-quality accounting standards and to develop the proposed Roadmap

In consideration of ongoing convergence activities, current economic conditions, and the unclear benefits of IFRS, we believe the Commission should look to IASB/FASB convergence as the best near-term approach to improve transparency and comparability. In general, we believe the costs of IFRS conversion will significantly outweigh anticipated benefits to be realized by most market participants to compete in a global marketplace. We also question whether a change from U.S. GAAP to a principles-based approach during a period of economic uncertainty will restore investor confidence regarding the reliability of financial reporting.

Similarly, we believe adoption of IFRS as presently constituted is unlikely to further the Commission's goal of increasing comparability. Several countries have already tailored IFRS to address local needs and, as result, the desired comparability is already diluted. We believe that without waiting for a greater degree of convergence to occur, a similar result is very possible in the U.S. and that ultimately IFRS could become just as lengthy and interpreted, through country by country exceptions, as is U.S. GAAP today.

With respect to the Roadmap, although providing a good conceptual view of the proposed milestones, lack of clarity and completeness of the milestone measurements, the absence of any minimum requirements for conformance of U.S. regulatory requirements and the absence of a date-certain mandate will jeopardize companies' ability to execute a thorough, controlled, and cost-effective implementation that will enhance their financial reporting and ensure the credibility of the U.S. implementation as a whole.

In conclusion, we believe a gradual adoption of converged standards over time as a result of the completion of critical IASB/FASB convergence activities, followed by transition to the remaining IFRS standards at a date-certain in the future is a more manageable process that is less disruptive to reporting companies and can be implemented in a more cost effective manner This time-phased approach for achieving conversion will also allow adequate time for the needed changes in regulations and regulatory reporting that are essential for the establishment of a stable future reporting environment.

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

Respectfully,

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