



September 20, 2010

Mr. Russell G. Golden
Technical Director
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

Subject: File Reference No. 1840-100

Dear Mr. Golden:

Thank you for providing the Aerospace Industries Association ("AIA") and our individual members the opportunity to share their views on the proposed Accounting Standards Exposure Draft entitled, *Contingencies (Topic 450) Disclosures of Certain Loss Contingencies* ("the Exposure Draft") issued by the Financial Accounting Standards Board ("FASB"). 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 almost 300 manufacturing companies with over two million employees and contributes to \$57 billion of our nation's trade surplus. Many of our industry's companies are major suppliers to the U.S. Government.

We believe the proposed Exposure Draft is preferable to the disclosure requirements previously outlined in the June 2008 FASB Exposure Draft, *Disclosure on Certain Loss Contingencies*. We understand the FASB's views on the needed improvements to disclosures of certain loss contingencies and the provision of adequate and timely information to assist investors and other key stakeholders in assessing the likelihood, timing, and magnitude of future cash outflows associated with those loss contingencies. Our main concerns with the Exposure Draft involve the adoption and implementation of the new disclosure requirements and potential for these requirements to undermine client-attorney privilege protections by requiring companies to provide prejudicial information regarding litigation matters.

We are concerned that the adoption period will not provide sufficient time for management to develop or re-design current practices, policies, controls and testing strategies to compile, analyze, test and report the proposed disclosures, which for public entities, would require the design and implementation of new internal control processes meeting Sarbanes-Oxley Act 404 standards. In addition, we are concerned that audit firms will not have sufficient time to develop and implement the necessary auditing procedures and that legal firms will not have sufficient time to modify their current practices in order to provide management and their auditors with the newly proposed information, which could be complicated by the attorney-client privilege covering work product.

The Exposure Draft requires disclosure, during the early stages of litigation, for all contingencies that are at least reasonably possible, of the contention of the parties which could include the basis for the claim, amount of damages claimed by the plaintiff and the basis for the defense strategy or acknowledgment that a strategy has not been formulated at the reporting date. While some of this information is publically available, including this information in the financial statements would require disclosure of information that management may not agree with, given the source would be the plaintiff and its experts. By including this information in the audited financial statements, investors could inadvertently misinterpret it as credible and valid, thereby placing undue reliance on the information. Additionally, requiring disclosure of information in advance of the ordinary course of litigation could compromise a reporting entity's legal strategy and position.

Other concerns include the following:

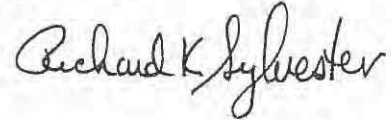
- The potential lack of alignment in disclosures between Generally Accepted Accounting Principles in the United States (U.S. GAAP) and International Financial Reporting Standards (IFRS), which could result in different information being presented for the same reporting entity and cause confusion among users of financial statements.
- Precluding companies from considering possible insurance or indemnification recoveries in determining whether contingencies should be disclosed. We believe that this will significantly expand the number of loss contingencies subject to disclosure (as well as the time burden of evaluating these matters and preparing the disclosures) without enhancing the investor's understanding of the true risk presented by a company's loss contingencies. It is counterintuitive to exclude the consideration of key mitigation factors due to their uncertainty when the loss contingencies themselves are inherently uncertain; in most cases, the likelihood of insurance and indemnification recoveries is less uncertain than the outcome of the contingencies themselves. The inability to consider insurance and indemnification recoveries also is a significant constraint on the flexibility we believe the Exposure Draft intended to give companies in evaluating the need to disclose matters that could have a potential severe impact.
- The potential increased volume of disclosures, particularly regarding certain remote loss contingencies with a potentially severe impact, which could obscure otherwise meaningful disclosures of other loss contingencies and potentially result in disclosures that could be misleading to financial statement users.
- Resource constraints, given the significant amount of time and effort our members are currently focusing on evaluating the *Revenue Recognition* (Topic 605) Exposure Draft, which we view as critical to ensure that potential issues impacting our industry are identified, considered and discussed.

Given the concerns noted above, we request the FASB delay the Exposure Draft effective date; and we propose the final standard be effective for fiscal years ending after December 15, 2011, which will allow companies such as ours sufficient time to implement the new disclosure requirements, as well as allow the IASB to complete its deliberation around potential changes to IAS 37, *Provision, Contingent Liabilities and Contingent Assets*.

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Our detailed comments on certain questions raised in the Exposure Draft are included in Appendix A to this letter. We repeat our appreciation for the opportunity to present our views on this Exposure Draft.

Sincerely,

A handwritten signature in black ink that reads "Richard K. Sylvester". The signature is written in a cursive style with a large, prominent initial "R".

Richard K. Sylvester
Vice President, Acquisition Policy

Appendix A

Detailed Comments

Question 1: *Are the proposed disclosures operational? If not, please explain why.*

We support the FASB's objective of improving transparency in financial reporting and disclosures. We are concerned that the proposed implementation period will not provide sufficient time for management to develop or redesign and operationalize current practices and policies to meet this deadline efficiently. While the new proposed disclosure requirements are not complicated in nature, gathering and analyzing a full year of information in this relatively short time frame could result in a more immediate focus on gathering the information to comply with the disclosure requirements and a lack of focus on meaningful analysis of this information. Overall, this could result in the development of processes and controls occurring in year two of reporting the new proposed disclosure requirements instead of in the year of adoption.

Question 2: *Are the proposed disclosures auditable? If not, please explain why.*

We are concerned that the disclosures may not be easily comparable among companies and industries, and therefore this will make it difficult for preparers and auditors to develop consistent procedures that will satisfy the auditing standards and ultimately support the audit opinion under the current auditing standards, inclusive of internal controls over financial reporting.

Question 4: *Is the proposed effective date operational? If not, please explain why.*

We support the FASB's objective of improving transparency in financial reporting and disclosures; however, we are concerned that the adoption period will not provide sufficient time for management and their auditors and attorneys to develop or re-design current practices, policies, controls and testing strategies to compile, analyze, test, and report the proposed disclosures. We are specifically concerned about the audit procedures that will need to be designed and performed to ensure auditing standards are satisfied and applied consistently. The expanded disclosures will almost certainly add additional costs for audit and legal time, with certain incremental time being incurred at the senior management and executive level given the subjective nature of contingencies. Additionally, considering that much of the required information is maintained manually or in several off-line databases, the aggregation of this information will require a significant amount of time and effort beyond the time and effort needed just to evaluate potential system enhancements and requirements. Further, the new disclosure requirements on certain remote loss contingencies with a potentially severe impact would expand the population of loss contingencies required to be disclosed. Management will need to develop and implement an enterprise-wide process to perform this assessment (covering multiple legal jurisdictions) and ensure that the process is applied consistently across various business units and/or operations that may function as a stand-alone entity.

In addition, given that the disclosure requirements are not identical between U.S. GAAP and IFRS, and until convergence is finalized, companies would be required to provide two sets of disclosure information, which could potentially result in the presentation of different information for the same reporting entity, creating confusion among financial statement users.

Question 5: *Do you believe that the proposed disclosures will enhance and improve the information provided to financial statement users about the nature, potential magnitude, and potential timing (if known) of loss contingencies?*

We believe the potential for increased volume of disclosures as required in the tabular reconciliation could detract from the usefulness of the financial statements, especially given the new disclosure requirements on certain remote loss contingencies with a potentially severe impact. This could result in disclosure of numerous remote loss contingencies that obscure otherwise meaningful disclosures of other loss contingencies. In addition, the disclosures regarding remote loss contingencies with a potentially significant impact may be misleading and confusing to users of financial statements. With many lawsuits, including frivolous lawsuits, the initial assessment of potential damages is difficult and requires significant judgment, which can result in inflated estimates that differ significantly from the ultimate final settlement or judgment. Requiring companies to disclose this information about contingencies could provide plaintiffs with information that could be used to their advantage in establishing a "floor" for settlement offers. In addition, paragraph 450-20-50-1F, which requires disclosure of insurance recoveries only when the information has been provided to the plaintiff or is discoverable, seems inconsistent with providing the users with key information that could have an impact on future cash outflows. The existence of insurance coverage and the potential for recoveries is relevant information that should be provided, as insurance plays a critical part in the overall risk management strategy of companies.

Question 8: *Do you believe that the proposed and existing XBRL elements are sufficient to meet the Securities and Exchange Commission's requirements to provide financial statement information in the XBRL interactive data format? If not, please explain why.*

We agree the proposed and XBRL elements are sufficient to meet the SEC's requirements to provide financial statement information in the XBRL interactive data format.