AEROSPACE INDUSTRIES ASSOCIATION

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President and Chief Executive Officer

April 8, 2009

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

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

Dear Ms. Murphy:

Thank you for extending the comment period deadline and providing the Aerospace Industries Association ("AIA") and our individual members an opportunity to share our and their views on the proposed *Roadmap for the Potential Use of Financial Statements Prepared in Accordance with International Financial Reporting Standards by U.S. Issuers* (the "Roadmap").

AIA is the premier aerospace industry trade association, representing the nation's major manufacturers of commercial, military, and business aircraft, helicopters, aircraft engines, missiles, spacecraft, materiel, and related components and equipment. AIA represents almost 300 manufacturing companies with over two million employees and contributes to a $57 billion trade surplus of our nation's trade balance.

Our aerospace and defense ("A&D") member companies are major suppliers to the U.S. Government and our interest in International Financial Reporting Standards ("IFRS") 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 U.S. Securities and Exchange Commission (the "Commission") for their continuing efforts to improve the transparency and clarity of accounting requirements and related disclosures.

We believe the Commission is correct to consider how a single set of high-quality global accounting standards would impact U.S. issuers, investors and the capital markets, along with the comparability and transparency of financial reporting on a global scale. Moreover, we support continued convergence of existing standards issued by the Financial Accounting Standards Board (the "FASB") and the International Accounting Standards Board (the "IASB"). We see convergence as both less risky and more cost effective in the longer term than mandatory conversion for the U.S. market. Successful completion of the FASB and IASB joint work plan will substantially achieve the benefits of one global set of accounting standards. However, we encourage the Commission to reconsider its proposed U.S. transition to IFRS as outlined in the Roadmap.

Concerns about Costs and Timing in Adopting the Roadmap

We have significant reservations about whether the Roadmap adequately addresses the full cost and time requirements of IFRS adoption. The Roadmap will require companies to make an immediate significant investment in systems and resources necessary to be in place by December 31, 2011, in order to comply with the requirement for preparation of three years of audited IFRS financial statements to meet the proposed 2014 mandatory adoption date for large accelerated filers. Because of the less prescriptive nature of IFRS, companies will be required to maintain detailed interpretations of IFRS to be followed at geographically dispersed locations as well as to address variations in applicable accounting standards across multiple lines of business.

We also have concerns about the ability of other governmental agencies to update regulations that impact companies' accounting practices and related systems within the timeline proposed by the Roadmap. Companies are subject to many reporting regulations by numerous U.S. Government agencies such as the Internal Revenue Service and the Department of Labor, among others. Many of these agencies require reporting based upon U.S. generally accepted accounting principles ("U.S. GAAP"). Most of our members are government contractors, who are subject to Cost Accounting Standards ("CAS") and Federal Acquisition Regulations ("FAR") as well as U.S. GAAP, and these rules are significantly intertwined. Therefore, we encourage the Commission to gain a full understanding of the impact of IFRS conversion on all such regulatory requirements and build this into the Roadmap as well.

We believe the Commission should work with other government regulatory agencies (e.g., the CAS Board and the Defense Acquisition Regulations Council) to ensure the impact of IFRS conversion on all such regulatory requirements is considered and incorporated in the Roadmap to avoid the following unintended consequences of IFRS conversion by government contractors.

- Government regulations currently reference specific U.S. GAAP rules that would require revision. However, since not all government contractors would be required to convert to IFRS, it is unclear how corresponding revisions could achieve consistent accounting for government contract costs.
- Several areas of IFRS conflict with cost accounting regulations and because the likelihood of eliminating these differences is remote, government contractors would be required to maintain dual accounting processes and records to support financial reporting and cost accounting (making U.S.-based A&D companies less competitive).
- The amount of costs allocated to individual government contracts at a company will be impacted by conversion to IFRS. There are specific rules for government contractors regarding their ability to recover costs associated with changes in cost accounting practices related to IRFS. Therefore, a government contractor is likely to experience an unintended negative financial impact as a result of conversion to IFRS.

- Government contractors must prepare cost projections for multiple years of existing government contracts and bids to obtain new contracts. These projections are based on the accounting practices in effect during the periods of performance and are subject to specific regulations and laws. However, cost estimates for the periods after IFRS conversion cannot be calculated with accuracy without significant effort, and cost estimates for years subsequent to 2014 are in use even now for long-term contracts. Therefore, government contractors may be required to accelerate projecting the impact of adopting IFRS to comply with government regulations and laws, without specific exceptions granted by the SEC.

Unless such issues are dealt with early on, government contractors would be subjected to great financial harm, conflicting regulatory guidance, and significant compliance costs. Therefore, the SEC needs to seriously consider the impact of adopting IFRS on Government contracts in developing requirements for inclusion in any future updates to the Roadmap.

General Concerns about the Proposed Roadmap for Adoption of IFRS

We believe the timeline currently proposed in the Roadmap will not provide U.S. issuers, accounting standard setters, accounting educators and other regulatory agencies sufficient time to execute a thorough, controlled, and cost-effective implementation.

We are concerned that the loss in sovereignty over the accounting standard-setting process could have unintended consequences for U.S. issuers, investors, and the U.S. capital markets after IFRS adoption. Transition to IFRS represents a significant reduction of control over the standard-setting process in the U.S., possibly hindering the ability to efficiently and effectively represent the best interests of U.S. issuers and investors and slow the public offering process in the U.S.

Summary of AIA's Position on the Proposed Roadmap

At this time, we believe that the benefits of a transition to IFRS are unclear, certainly as they pertain to U.S. issuers. Therefore, the SEC should complete a more in-depth analysis of the issues discussed above and in the attachment before any final decision on the use of IFRS in the U.S. is made. Notwithstanding these concerns, we believe that the establishment of a global set of accounting standards is a worthwhile goal in the long term. Therefore, we believe that the Commission should encourage the IASB and the FASB to expedite efforts to converge U.S. GAAP with IFRS in a manner that will minimize adverse financial impacts to U.S. issuers and the investment community. Please refer to Attachment 1 for a more detailed discussion of our concerns with the Roadmap.

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

Best regards,

Marion C. Blakey

Attachment

cc: James L. Kroeker, SEC Acting Chief Accountant
Wayne Carnell, SEC Chief Accountant, Division of Corporate Finance
Michael D. Coco, SEC General Counsel
Julie Erhardt, SEC Deputy Chief Accountant, International

ATTACHMENT I

We believe the costs of converting U.S. companies to IFRS as proposed in the SEC Roadmap will outweigh the benefits of conversion. The Commission estimates that company costs to implement IFRS will average at least 0.13% of annual revenue for larger and more complex companies. Unfortunately, the benefits to U.S. companies of converting to IFRS are significantly less than these cost estimates. U.S. companies with largely domestic operations are likely to receive little to no benefit from a move to IFRS. Furthermore, implementation cost estimates typically do not contemplate the increased ongoing costs required by IFRS reporting. Based upon our research of the European IFRS implementation experience, ongoing company technical accounting staff costs will increase by at least 30% to support IFRS.

We also understand that various U.S. Government agencies may not be prepared for a transition to IFRS, given the current roadmap timeline. For instance, we understand that the IRS will have to make significant IT investment and administrative changes to be ready for the adoption of IFRS.

Cost Benefit Analysis of IFRS Implementation

As we have developed this comment letter to address functional and systemic issues inherent to the transition to IFRS, we would like to stress upfront the following findings of our cost-benefit analysis related to IFRS implementation. Many of these points, while currently not quantifiable, will either increase the expected costs or minimize realized benefits, and are summarized in this section and threaded throughout the functional area commentary that follows:

- The Roadmap does not provide sufficient time for convergence and a stable platform (i.e., free from standard setting) given the proposed 2014 transition date and the major FASB and IFRS convergence projects that are planned to be completed in 2011.
- Companies will be attempting to hit a dynamically moving target, involving complex accounting policies such as revenue recognition, leases and employee benefits [plus accounting treatment differences contained in the IASB/FASB Memorandum of Understanding (MOU).] The addition of accounting difference projects to the MOU will ultimately increase conversion costs.
- IFRS may result in inconsistent accounting within an industry. Because IFRS is principles-based, which allows for flexibility in interpretations, companies within the same industry may report transactions differently given the same set of facts.
- Many countries other than the U.S. have adopted their own version of IFRS; therefore, it is uncertain whether mandatory adoption of IFRS as promulgated by the IASB within the U.S. will achieve complete comparability with these countries on any global scale. The lack of comparability will drive investor costs higher as financial statement reviews will entail numerous adjustments to make statements comparable.
- The less prescriptive nature of IFRS will result in increased U.S. issuer costs. Companies, particularly those with diversified and complex businesses, will have to create and maintain detailed documentation of their interpretations of IFRS to be followed at geographically dispersed locations and across diverse lines of business. Such detailed guidance will be necessary to ensure consistent interpretation and understanding within and throughout a company.

The costs of IFRS implementation could be reduced substantially if U.S. GAAP and IFRS were allowed to continue to substantially converge and remain stable for several years before a mandatory switch over to IFRS in the U.S. Also further cost reductions could be achieved if the Commission permitted presentation of two years of IFRS financial statements (i.e., one prior year) rather than three years (i.e., two prior years) in the initial year of adoption. This would reduce the requirement to maintain dual-reporting systems (i.e., IFRS and U.S. GAAP) to two years instead of the currently proposed three years. Moreover, it would result in U.S. filers being treated the same as foreign filers in the initial adoption period.

We have reviewed the following functional and business areas in light of the Roadmap, and have developed the following comments relative to the impact of an IFRS transition.

Unique Impact to the U.S. Government Contracting Industry

We understand that the Commission is interested in the ramifications of compliance with other regulations which would occur as a result of adoption of IFRS. Adoption of IFRS carries additional challenges for the many U.S. companies that sell products and services to the U.S. Government. As the number of government contractors that would be required to adopt IFRS is significant, we strongly encourage the Commission to consider the potential impacts on those contractors outlined below.

Government contractors are subject to cost accounting regulations which include rules for the measurement, accounting period assignment, and the allocation of costs for government contracts. However, these rules—defined within the Cost Accounting Standards ("CAS") and the Federal Acquisition Regulation ("FAR")—are not comprehensive sets of accounting rules, so U.S. GAAP is also used for both financial and cost accounting purposes for certain costs. Thus, the underlying cost accounting records include a mix of costs based on CAS/FAR and U.S. GAAP rules. Currently, companies generally use these underlying cost accounting records for their financial reporting with minimal adjustments during the consolidation process to bring them into compliance with U.S. GAAP. Adoption of IFRS for government contractors will add complexities and costs because of the requirement to simultaneously comply with these multiple accounting regulations.

First, there are a number of areas in CAS and FAR requiring the use of specific U.S. GAAP rules, such as Statement of Financial Accounting Standards ("SFAS") No. 106, *Employers' Accounting for Post Retirement Benefits Other Than Pensions*, and SFAS No. 13, *Accounting for Leases*. These references to U.S. GAAP would need to be revised in CAS and FAR. However, because not all U.S. companies would be required to adopt IFRS, references to U.S. GAAP cannot simply be replaced with references to IFRS. So it is unclear how the promulgation bodies for CAS and FAR could revise the rules to achieve consistency in accounting for contract costs.

Second, several areas in IFRS could not be adopted for cost accounting by government contractors because of direct conflicts in the regulatory requirements. This expansion of the number of differences between financial accounting and cost accounting, such as adjusting assets to fair value and capitalization of research and development costs, would likely require government contractors to incur costs to modify existing business processes and computer systems to maintain separate financial accounting and cost accounting records.

Third, adoption of IFRS will result in changes to accounting practices for the measurement, assignment, and/or allocation of costs for cost accounting purposes. There are specific rules in CAS and FAR regarding changes to any accounting practice that impact costs charged to government contracts. Adoption of IFRS is likely to have a moderate to significant impact on costs allocated and charged to government contracts, and it is not clear whether the government will allow its contractors to receive any IFRS-related price adjustments to their contracts. As a result, adoption of IFRS is likely to have a negative financial impact on a government contractor, including reductions to revenue and/or profit margins on government contracts. Therefore, we believe that the Commission should not move forward with mandatory adoption of IFRS unless steps are taken to assure no negative financial impact is experienced by government contractors that must conform with IFRS.

Lastly, contracts with the U.S. Government are often bid using cost estimates several years into the future, typically five years forward, because that is the period when performance on the contract will occur. Cost estimates are based on the accounting practices that will be in effect during the period. The Truth in Negotiations Act ("TINA") requires that the cost estimates used on such bids are current, accurate, and complete, and there are serious consequences, such as fines, suspensions, and even imprisonment, for contractors that fail to comply with TINA The Roadmap the Commission has drafted for adoption of IFRS will present significant challenges to contractors that must comply with TINA. For example, government contractors that must adopt IFRS by 2014 would essentially be required to develop current, accurate, and complete cost estimates based on IFRS rules to bid on government contracts that will be performed during or after 2014. Opportunities to bid on government work with a performance period occurring in the post implementation IFRS years are occurring even now for long-term contracts. If the Commission decides during 2011 to exercise the option to not require mandatory adoption of IFRS, government contractors will be faced with the time consuming and costly task of having to identify and re-price all government contracts that were initially bid based on cost estimates using IFRS accounting practices.

Therefore, we believe the Commission should push back the mandatory adoption of IFRS for government contractors to allow time to amend U.S. GAAP references (affected by IFRS and currently relied on by CAS and FAR), and to resolve the conflicts between IFRS and the cost accounting regulations. Additional time will also be needed to prevent negative financial impacts on government contractors, and to enable contractors to assure that their contract cost proposals are in compliance with TINA.

Timeline for Adoption of IFRS

We believe the timeline proposed in the Roadmap will not provide U.S. issuers, accounting standard setters, and other regulatory agencies sufficient time to execute a thorough, controlled, and cost-effective implementation.

Should the Commission proceed with the Roadmap as proposed (vs. our recommended extension of the period for convergence), we recommend that the Commission provide all issuers a total of seven years between the determination date and a mandatory adoption date. Thus, if the Commission determines in 2011 that it will require use of IFRS, the mandatory adoption date should be 2018, rather than 2014 as currently proposed. This provides sufficient time for companies to prepare and audit three years of financial statements using both IFRS and GAAP-- one statement each year using IFRS concepts and the other in compliance with GAAP. A decision in 2011 to mandate adoption of IFRS in 2014 would provide large accelerated filers less than one year to prepare for dual reporting of IFRS and U.S. GAAP financial statements beginning on January 1, 2012. One year is simply insufficient time to complete the costly and complex implementation efforts of a transition to IFRS, especially given the unique requirements in the U.S. related to internal controls over financial reporting under the Sarbanes-Oxley Act of 2002. The longer implementation period is also necessary for the U.S. Government to be assured that its contractors are able to appropriately price contracts, and develop multi-year cost projections, utilizing the new standards. Additionally, U.S. Government agencies will require the longer period (an additional seven years) to ensure the successful conversion of their numerous systems.

We also recommend that the Commission permit presentation of two years of IFRS financial statements (i.e., one prior year) rather than three years (i.e., two prior years) in the initial year of adoption, thereby reducing the requirement to maintain dual reporting systems from three years to two years. The opportunity to organize resources over a longer time period to plan and effectively transition to IFRS is attractive from a cost perspective and increases the potential for a successful transition.

The Roadmap's 2014 mandatory adoption date does not provide sufficient time for convergence and a stable accounting platform (i.e., free from standard setting) given the 2011 targeted completion dates in the FASB and IASB joint work plan. We expect most of the new standards resulting from the joint project will be unable to be implemented until after 2012. Assuming a 2014 mandatory adoption date, companies would have to retroactively change up to three years of financial statements (2014, 2013, and 2012) for these new IFRS accounting standards to comply with the transition requirements of IFRS 1, *First-time Adoption of International Financial Reporting Standards* ("IFRS 1"). As noted previously, companies will be attempting to hit a dynamically moving target, involving complex accounting policies such as revenue recognition, leases, and employee benefits. Of particular concern is timing of the joint project on revenue recognition, which could have a significant impact on companies that use percentage-of-completion accounting. Retroactively changing revenue recognition would be extremely costly and complex.

To avoid a resource conflict between IFRS implementation and legacy accounting requirements, should the Commission proceed with the Roadmap as proposed, we urge the Commission to maintain a stable accounting platform during the transition period and to suspend the issuance of new accounting guidance beyond the scope of the current FASB and IASB joint work plan. We also recommend the Commission work with the IASB to consider modifying the transition requirements of IFRS 1 to allow the option of prospective, rather than retrospective, implementation of new accounting standards. This would make the financial statements of first-time U.S. adopters more comparable to those of their international peers who already use IFRS, which permits them to prospectively implement new standards.

The proposed timeline in the Roadmap does not address actions that must be taken by the Internal Revenue Service and global tax authorities to support adoption of IFRS by U.S. companies. A conversion to IFRS will not only impact the accounting for income taxes included in a company's financial statements, but it will also impact a company's foreign, U.S. federal, and U.S. state cash tax liabilities. For businesses that have complex contracts involving the delivery of goods and services over several years to customers in multiple countries, the conversion to IFRS will likely result in a myriad of changes in financial accounting methods for income and expense recognition. A change in financial accounting methods does not necessarily equal a change in tax accounting method. Companies would need to examine every potential financial accounting method change for its corresponding tax impact in every taxing jurisdiction around the world where it is subject to tax. This analysis includes whether or not a new IFRS accounting policy is an acceptable method for tax purposes in a specific country as well as in the U.S. In many countries where IFRS has already been adopted for financial accounting purposes, IFRS is not yet considered an acceptable tax accounting method. In many circumstances, companies will desire or be required to file applications with the Internal Revenue Service to change their tax accounting methods to follow the new IFRS requirements. Presumably, tax authorities around the world will need to prepare to review a massive volume of tax accounting method changes unless they issue a blanket exception for IFRS conversion related changes.

Additionally, as a result of the financial accounting method changes, companies would need to change their information systems, processes, and controls for tax data collection and maintain additional sets of records to identify, analyze, and track new differences between IFRS financial and tax accounting results. This will place substantial additional time burdens and costs on companies to ensure compliance with tax laws around the world. Therefore, we believe the Commission should not move forward with mandatory adoption of IFRS without further consideration of the depth of the workload and burdens to be placed on global tax authorities and U.S. filers. We have previously noted similar concerns about the requirements of the CAS Board, DAR Council, and other governmental agencies to update regulations that impact companies' accounting practices and related systems. We expect these agencies to incur substantial effort and costs related to the conversion to IFRS due to the need for significant information technology investment and administrative changes. Therefore, we believe the timeline proposed in the Roadmap needs to provide for actions necessary by these governmental agencies to ensure they are ready for a transition to IFRS.

Governance Considerations

We are concerned about the impact the loss in sovereignty over the accounting standard-setting process will have on U.S. issuers, investors, and the U.S. capital markets after IFRS adoption. Currently, the FASB, with SEC oversight, has control over the U.S. standard-setting process, adapting U.S. standards quickly as circumstances require. The adoption of IFRS will result in the U.S. being only one of numerous constituents of the IASB. Transition to IFRS represents a significant reduction of control over the standard-setting process in the U.S., possibly hindering the ability to efficiently and effectively represent the needs of U.S. issuers and investors. This could also potentially decelerate the timely creation or modification of appropriate accounting standards given the multiple competing constituencies. We believe the need for modifications is almost certain given the history of the evolution of the U.S. accounting system from more principles-based to detailed U.S. GAAP driven by our very unique regulatory, market, and legal environment.

In effect, our ability to respond to accounting issues would be constrained by our ability to convince the IASB to act in a manner aligned with our objectives, which may not always be aligned with other constituents of the IASB. In fact, given the very unique legal and regulatory environment in the U.S., users and investors' needs may frequently be at odds with those of other IASB constituents. At a minimum, it is uncertain whether IFRS or the IASB can respond to the demands of an increasingly complex business environment over the long-term as efficaciously as the current U.S. model. To avoid such risks, we are in favor of the FASB continuing its role as the U.S. accounting standard setter and working with the IASB to converge existing standards.

Consistency and Comparability of Financial Reporting

We believe it is unclear whether a transition to IFRS at this time will achieve the desired benefits of consistency and comparability of financial reporting. Having only been in broad application since 2005, IFRS is a relatively new body of literature and has not been tested to the same extent as U.S. GAAP. Because IFRS is very principles-based and provides little implementation or industry guidance, practice has proven that companies within the same industry may report transactions differently given the same set of facts. For example, as previously stated, the accounting treatment of In Process Research & Development by pharmaceutical companies in the United Kingdom differs depending on whether a company has patents or focuses on generic drugs. In addition, because many countries have adopted their own version of IFRS, it is uncertain whether mandatory U.S. adoption of IFRS as promulgated by the IASB will achieve comparability of financial reporting on any global scale. Even within the U.S., the proposed Roadmap will cause comparability issues, as public companies will be mandated to move to IFRS while private companies will likely remain on U.S. GAAP. Working toward convergence of the two sets of standards (IFRS and U.S. GAAP) would address this dichotomy in requirements between public and private companies.

Conclusion

Based upon our comments above, at this time we believe that the benefits from a transition to IFRS are unclear and of limited value, if any, to the restoration of investor confidence in the U.S. capital markets, and a more in-depth analysis is necessary before any final decision on the use of IFRS in the U.S. can be made. In the meantime, we recommend that the Commission strive for convergence of U.S. GAAP with IFRS so as to achieve the desired result with minimal financial impact to U.S. issuers and the investment community.