

November 13, 2012

Susan M. Cospers, Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

Subject: File Reference No. 2012-220

Dear Ms. Cospers:

Raytheon Company appreciates the opportunity to review and comment on the Invitation to Comment entitled, *Disclosure Framework* (the "Discussion Paper" or "DP"), issued by the Financial Accounting Standards Board ("FASB" or the "Board"). Raytheon Company, with 2011 sales of \$25 billion and 71,000 employees worldwide, is a technology and innovation leader specializing in defense, homeland security and other government markets throughout the world. With a history of innovation spanning 90 years, Raytheon provides state-of-the-art electronics, mission systems integration and other capabilities in the areas of sensing; effects; and command, control, communications and intelligence systems, as well as a broad range of mission support services. Raytheon is headquartered in Waltham, Mass.

We are a major supplier to the U.S. Government and are committed to strong corporate governance, including accountability to our stockholders and transparent disclosure. We seek to provide the highest levels of financial reporting for the benefit of our investors in the U.S. market and across the globe. Accordingly, we have a significant interest in the Board's project underlying the Discussion Paper and we believe that a fundamental tenet of financial statement disclosures is that they result in decision-useful information for investors. Overall, we conceptually agree with a footnote disclosure framework and we support the efforts of the FASB to explore various avenues to make financial statement disclosures more effective. However, we believe the Board should take a holistic approach to evaluating disclosures and not solely focus on the footnotes. We recognize that the Board does not control U.S. Securities and Exchange Commission ("SEC") regulatory disclosure requirements. However, we believe that the SEC and FASB need to work jointly to develop a cohesive framework. A joint approach is necessary in order for this project to achieve its stated goals of improving the effectiveness of financial statement disclosures, including the benefit of reducing the volume of disclosures through a sharper focus on disclosure of important information. To this end, we recommend that the Board consider the following before it pursues any next steps in developing a disclosure framework.

Our response includes comments on today's financial statement disclosure environment, specific thoughts on the concepts put forth in the DP on the disclosure framework that would be applied by the Board, and, finally, ideas to consider in structuring a footnote disclosure framework for preparers to apply.

#### **Current financial statement disclosure environment**

Overall, we believe the FASB's disclosure requirement framework in place today, which prescribes disclosures by Accounting Standards Codification ("ASC") Topic with required materiality considerations (for many standards), is effective. This structure provides entities with a basis to consider all *possible* required disclosures through use of checklists and allows for effective internal governance and auditability. It presents entities with an easily applied methodology and fosters disclosure consistency across companies both by ASC Topic and by

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industry. However, the current approach often results in entities defaulting to disclosing “everything” without the use of judgment, given the tendency for entities and their auditors to be risk averse in our regulatory and litigious environment. This results in disclosure “overload.”

There is a building consensus in the financial community that the current financial reporting suffers from disclosure “overload,” as noted in the DP and evidenced by the following:

- “The bottom-line risk with information overload is that investors will have so much information available to them that they will sometimes be unable to distinguish what is important from what is not...Ironically, if investors are overloaded, more disclosure actually can result in less transparency and worse decisions.”<sup>1</sup> – Troy A. Paredes, SEC Commissioner speech on October 27, 2011 at the Twelfth Annual A.A. Sommer, Jr. Lecture on Corporate Securities and Financial Law
- “...The FASB and SEC should take various incremental procedures in consideration of cost-benefits analysis as a part of developing proposals for new accounting standards. In particular, the FASB should consider any new disclosure requirements from the context of the overall current disclosure environment rather than considering disclosure from the perspective of each individual topic as it is addressed in standards setting. This macro disclosure consideration, together with more rigorous cost-benefit analysis and field testing of disclosures should be considered prospectively and retrospectively.”<sup>2</sup> – KPMG & Financial Executives Research Foundation recommendation from the study, “Disclosure overload and complexity; hidden in plain sight.”

While we recognize that reducing the volume of disclosures is not the primary focus of the Board’s project, we believe the Board should address the issue of disclosure “overload” in order to achieve the goal of improving effectiveness through a sharper focus on important information. We suggest that the framework focus on empowering entities to exercise greater judgment in evaluating disclosures for relevancy and materiality prior to inclusion in their financial statements, as this will generate the most impactful improvements for both entities and users. We believe the following two suggestions would aid in achieving this outcome:

- Require application of materiality threshold for all standards:  
We believe that the Board should clarify how materiality should be applied in evaluating disclosure requirements. Specifically, the Board should clarify that an entity need not disclose *all* information required by an ASC Topic. Instead, an entity should evaluate which information is relevant and material to its circumstances and disclose only that information. We believe this clarification could reverse entities’ automatic tendencies to disclose all information required by a particular standard.
- FASB and SEC apply a holistic approach to consider information in the footnotes and elsewhere (e.g., MD&A):  
We believe the Board should work closely with the SEC to ensure consistent objectives and to align their respective disclosure principles in order to achieve disclosure effectiveness. As stated in paragraph A3 of the DP Appendix, the FASB’s Investors Technical Advisory Committee “...recommended that the SEC and the FASB work together to develop a disclosure framework to, among other things, —integrate existing SEC and FASB disclosure requirements into a cohesive whole to ensure meaningful communication and logical presentation of disclosures, based on consistent objectives

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<sup>1</sup> Paredes, Troy A. “SEC Commissioner speech at the Twelfth Annual A.A. Sommer, Jr. Lecture on Corporate Securities and Financial Law.” sec.gov. SEC. 27 Oct. 2011. 6 Feb 2012  
<http://www.sec.gov/news/speech/2011/spch102711tap.htm>.

<sup>2</sup> “Disclosure overload and complexity; hidden in plain sight” KPMG and FERF survey and report, 2011.

and principles.”<sup>3</sup> This singular view by both the FASB and SEC of what relevant information should be included in the notes to the financial statements and what relevant information should be included elsewhere (e.g., MD&A) would allow financial statement preparers to avoid repetition of information.

To achieve this objective, we believe that the FASB and SEC should define the purpose of both footnote disclosures and SEC disclosures required elsewhere in the financial statements. Current FASB projects (e.g., *Revenue Recognition (Topic 605)*, *Revenue from Contracts with Customers; Leases (Topic 840)*; and *Financial Instruments (Topic 825)*, *Disclosures about Liquidity Risk and Interest Rate Risk*) propose footnote disclosure of forward-looking information (e.g., the proposal to disclose remaining performance obligations in the Revenue Recognition project). We believe this information is better fit for required SEC disclosures (i.e., MD&A) as it requires an assessment of future reporting periods. Accordingly, an agreement by the FASB and SEC on this framework to eliminate this perceived disconnect is fundamental before the objective for a footnote disclosure framework can be defined. For example, we view MD&A information as focusing on known business trends, results of operations, financial condition, and liquidity, including forward-looking information. We view the primary focus of footnote disclosures to detail accounting policies, material financial statement line item information about each balance as of the financial statement date, and historical information.

We also believe this holistic approach would drive greater value to investors, as it would provide clarity on where to find information. Specifically, users would benefit from the ability to go to one place to get all of the relevant information about a certain topic, as opposed to “bouncing” between sections. This approach would also assist entities in ensuring that their disclosures in each section of the financial statements appropriately meet the objectives for that section. Ultimately, we believe a holistic approach is necessary to achieve the goal of making the financial reporting process, as a whole, more effective and coordinated.

In line with this approach, as contemplated in the DP, addressing the policy footnote in isolation will not remedy disclosure/information “overload.” We think a broader approach that also contemplates SEC disclosure requirements would be more successful to that end. For example, we believe a set of financial statements should be able to stand on its own. We do not believe that moving the policy footnote from the financial statements to another document/website or including an accounting policy only if that policy has changed or is industry-specific would make disclosures more coordinated. Additionally, it would require users to spend greater time seeking out other sources of information (e.g., companies’ websites, FASB ASC) to understand accounting policies.

### **Comments on the disclosure framework to be applied by the Board**

#### **Focus on future cash flows**

We believe there are potential issues with a disclosure framework that focuses directly on an entity’s future cash flows. There is a consensus that financial statements relate to a point in time or explain what has occurred over a period. We believe *users* (e.g., investors, lenders, etc.) must assess the prospects for net cash inflows to an entity. The FASB’s current conceptual framework supports this view by placing responsibility for analyzing an entity’s financial statements and related footnote disclosures on users (i.e., it recognizes that the entity provides information to

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<sup>3</sup> Final Report of the Advisory Committee on Improvements to Financial Reporting to the United States Securities and Exchange Commission (Pozen Committee) (August 1, 2008) Recommendation 1.2: 8, <http://www.sec.gov/about/offices/oca/acifr/acifr-finalreport.pdf>.

assist users, but also acknowledges that financial reports do not and cannot provide all information that users need). We refer to the following:

- “The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders, and other creditors in making decisions about providing resources to the entity.”<sup>4</sup> – Statement of Financial Accounting Concepts No. 8, paragraph OB2
- “...decisions by existing and potential lenders and other creditors about providing or settling loans and other forms of credit depend on the principal and interest payments or other returns that they expect. Investors’, lenders’, and other creditors’ expectations about returns depend on **their assessment** of the amount, timing, and uncertainty of (the prospects for) future net cash inflows to the entity. Consequently, existing and potential investors, lenders, and other creditors need information to help them assess the prospects for future net cash inflows to an entity.”<sup>5</sup> – Statement of Financial Accounting Concepts No. 8, paragraph OB3
- “However, general purpose financial reports do not and cannot provide all of the information that existing and potential investors, lenders, and other creditors need. Those users need to consider pertinent information from other sources, for example, general economic conditions and expectations, political events and political climate, and industry and company outlooks.”<sup>6</sup> – Statement of Financial Accounting Concepts No. 8, paragraph OB6

We believe the Board should consider how decisions in this project fit into the current conceptual framework (though it is not finished). The Board should also consider what is reasonable for an entity to disclose in its notes to the financial statements pertaining to future cash flows (i.e., forward-looking information) against what responsibility the user has to analyze that information in making future investment decisions. We believe the concept revolves around answering the question of what the footnotes are supposed to accomplish and that footnote disclosures are not to be viewed as predictive. We believe that the notes to the financial statements explain results that have already occurred such that users may analyze that information when formulating their own future assessments. Conversely, financial forecasts, which are not part of footnote disclosures, are intended to provide more complete information regarding entities’ future cash flows (i.e., an entity presenting its financial forecast likely provides a better indicator of future cash flow prospects than presenting its financial statement footnote disclosures, as evidenced by greater correlation of changes in forecasts with stock price movement).

We have identified the following other areas as reasons that a focus on future cash flows in the footnotes to the financial statements may cause unintended consequences, as follows:

- We believe the concept (paragraph 1.15 of the DP) of disclosing information that “could make a material difference in assessments of future cash flows prospects” is too broad due to the litigious environment that we operate in today. In order to narrow the scope, we suggest basing the principle on information that is probable to make a material difference. Additionally, we believe it is necessary for the framework to clarify that footnote disclosures focus only on financial information and not statistical or other information (e.g., number of employees, etc.). For instance, is the number of employees that works at the company relevant? One may view this as irrelevant at the time of its disclosure, but litigators may argue later that it is relevant to predicting future cash flows, leaving an entity with undue legal exposure (given the vast amount of statistical data

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<sup>4</sup> FASB. “Statement of Financial Accounting Concepts No. 8.” September 2010.

<sup>5</sup> FASB. “Statement of Financial Accounting Concepts No. 8.” September 2010.

<sup>6</sup> FASB. “Statement of Financial Accounting Concepts No. 8.” September 2010.

most large entities collect). Consequently, following the DP's proposed approach of focusing on items/events that could make a material difference in assessing future cash flow prospects could exacerbate disclosure overload, which is counter to the Board's primary objective. Specifically, entities may include redundant information or disclose vastly more data in their footnotes to mitigate legal exposure.

- We believe that users of financial statements already receive forward-looking information in other mediums that should be reviewed in conjunction with financial statements, such as webcast forecasts, earnings releases, and other press releases. General information on macro-economic and political conditions and consumer and industry trends needs to be considered as well. For example, we believe users of our financial statements regularly examine information from Aerospace and Defense specific sources (e.g., Department of Defense ("DoD") roadmaps, DoD budgets) to obtain a complete picture of an entity's financial performance. We believe these other mediums provide users with a better understanding of entities' prospects for future cash flows, while allowing the notes to the financial statements serve as a basis for reporting historical financial results.
- We understand that financial statement users request forward-looking information, as they believe it will elicit predictive cash flow detail. We believe information included within the financial statements should be limited to clarifying historical results and not providing information about future events that are not yet complete. Inclusion of this type of information in the notes to the financial statements versus elsewhere (e.g., MD&A) also excludes it from the safe harbor protections regarding forward-looking statements afforded by the Private Securities Litigation Reform Act of 1995 and related SEC regulations. A disclosure framework focused solely on future cash flows is also impractical in that it would require entities to include forward-looking information, which is unauditable, in the notes to the financial statements, which require audit.

However, we recognize the need to include certain limited forward-looking information in the footnotes to the financial statements in order to provide context for transactions or financial statement line items that are in existence as of the balance sheet date. We suggest the Board develop a framework for evaluating when inclusion of forward-looking information may be appropriate; that is, require entities to include specific forward-looking information in the footnotes when that information: (1) assists in understanding an existing transaction or financial statement line item and (2) is not subject to significant judgments and uncertainty. For example, we cite the following three areas of current footnote disclosure that provide forward-looking information, but do so in a manner that provides objective information for users to interpret, rather than subjective information that attempts to forecast future results.

- ASC Topic 840, *Leases*, requires entities to disclose "...future minimum rental payments required as of the date of the latest balance sheet presented, in the aggregate and for each of the five succeeding fiscal years." This requirement encompasses information that exists as of the balance sheet date and that is determinable objectively (i.e., based on contractual lease terms). However, a disclosure principle that would require an entity to estimate leases it will enter into in the future to replace those that are expiring may provide more insight into future cash flows, but would also require disclosure of very subjective forward-looking information that would be subject to audit. While future lease arrangements will affect an entity's future cash flows, we do not believe that information should be included in footnote disclosures, which are meant to convey historical financial information or contractual commitments that exist as of the balance sheet date.
- ASC Topic 470, *Debt*, requires entities to disclose "...the combined aggregate amount of maturities...for all long-borrowings...for each of the five years following the latest balance sheet date presented." This requirement encompasses information that exists as of the balance sheet date and is determinable objectively (i.e., based on contractual maturity

terms). However, a disclosure principle that would require an entity to estimate future borrowings to replace existing debt or support business expansion plans may provide more insight into future cash flows, but would also require disclosure of very subjective forward-looking information that would be subject to audit. As noted above with leases, while future borrowings will affect an entity's future cash flows, we do not believe that information should be included in footnote disclosures, which are meant to convey historical information or contractual commitments that exist as of the balance sheet date. We believe the Board has also taken this view in the past given the high hurdle criterion of ASC Topic 470-10-45-14 related to ability and intent to refinance short-term debt that must be met prior to presenting short-term debt as long-term debt.

- ASC Topic 715, *Compensation - Retirement Benefits*, requires an entity to disclose a variety of forward-looking information. For example, estimates used to measure its net pension liability or asset and contributions in the upcoming year. The nature of pension benefits requires companies to provide additional information for users, as certain inputs would be too difficult to discern (e.g., discount rates, expected returns). This requirement encompasses information that exists as of the balance sheet date and is determinable objectively (i.e., contained in actuarial valuation reports). Conversely, a disclosure principle that would require an entity to estimate benefits owed to employees that will enter the plan in the future may provide more insight into future cash flows, but would also require disclosure of very subjective forward-looking information that would be subject to audit. That said, we believe inclusion of estimated annual contributions for the following year is appropriate, as it encompasses information required to be calculated under existing regulations and laws based upon balances at the end of the historical period. While information regarding forecasted contributions beyond the following year will certainly affect an entity's future cash flows, we believe it has little predictive value, as it is not rooted in objectively determinable information and is dependent highly upon annual returns and discount rates in the following year.

In short, in developing a footnote disclosure framework, we believe the Board should consider the delicate balance between forward-looking information provided by entities that is grounded by existing transactions or existing firm commitments that can be determined with precision (i.e., based upon contractual terms or legal obligations existing at the balance sheet date) and information that is subject to management's plans and judgments about the occurrence of future events.

### **Other topics**

#### **Proposed disclosure requirements in existing and future projects**

It is unclear how entities should consider the concepts in the DP in relation to the proposed disclosure requirements in existing and future projects (e.g., revenue, leases, financial instruments). As noted above, we believe that forward-looking information that is not based upon existing firm commitments that can be determined with precision (i.e., based upon contractual terms or legal obligations existing at the balance sheet date) should not be required in the notes to the financial statements, but rather in MD&A. We believe that the Board should agree on a disclosure objective for the footnotes before proceeding with proposed disclosure requirements in its other projects.

#### **Interim financial statements**

We believe interim financial statements should similarly apply the materiality and probability of occurrence/relevance framework we discuss below, but with a focus on whether a material change or changes from the annual financial statements has (have) occurred. This will ensure that interim financial statements provide decision-useful information.

### **Prescribed footnote order/format**

We do not believe the Board should prescribe footnote order or format, as the most relevant information will vary greatly from company to company and industry to industry and entities should be able to apply judgment in presenting/ordering footnotes to present their disclosures in a decision-useful manner. As long as entities logically present all relevant information (i.e., in way that is not misleading), allowing management to apply judgment and present information according to relevance to the entity's business model would align with goal of an effective and coordinated disclosure framework.

### **Framework shift**

The Board should consider whether a disclosure framework will shift how preparers, auditors, audit committees, and legal view/approach disclosures and disclosure requirements. Given the tendency for entities to be risk averse in our regulatory environment, any footnote disclosure framework needs to contemplate stakeholder behavior and provide definitive guidance on when entities may omit disclosure items. More specifically, an effective footnote disclosure framework should provide preparers, lawyers, audit committees, and auditors with a concrete foundation that supports their choices to omit/permit omission of certain disclosures and reverse the automatic tendency to disclose all information required by a particular standard.

### **View of a possible footnote disclosure framework for preparers to apply**

As contemplated in section 3.11(b) of the DP, we believe it is best to base any footnote disclosure framework on detailed disclosure requirements developed and written by the Board for each ASC Topic and require entities to make their own decisions about the relevance of each item. However, we also suggest that footnotes avoid disclosure of forward-looking information. A framework based on this concept would allow for greater comparability and consistency than would entities applying the framework decision process themselves, thereby eliminating the need for entities to second-guess what to disclose. We believe rooting the footnote disclosure framework in requirements to assess relevance by both materiality and probability based on management's judgment is preferable to a framework that focuses on management trying to determine what may be decision-useful information given the large number of users with potential varying views on what information is important. Therefore, we offer the following suggestions to consider in any footnote disclosure framework, which we believe align with the goal of effective and coordinated disclosures.

- We believe the materiality and probability principles/concepts of ASC Topic 450, *Contingencies*, could be a good starting point in governing footnote disclosure decisions. The ASC Topic 450 framework focuses on both materiality and probability of occurrence/relevance. These concepts align with DP goal of disclosing relevant information balanced with the flexibility for preparers to determine which information should be disclosed. If a clear disclosure framework exists that provides preparers with relevance criteria for why they chose to disclose what they did, it establishes an expectation for users (e.g., investors, regulators) regarding how an entity came to omit certain disclosures.
- Using ASC Topic 450 as a disclosure basis, we believe an entity would provide footnote disclosure when an item is material, an item is reasonably possible to occur and is material, or an item is reasonably possible to occur and reasonably possible to be material. No disclosure would be required when an item is immaterial or remote. When there are no specific disclosure requirements for an item (i.e., unusual items), an entity would evaluate if material or reasonably possible to occur/be material. For example, entities could follow current gain/loss contingency guidance (i.e., disclose anticipated losses and recognize gains when realizable) when analyzing the relevance of unusual items. This evaluation process would assist users in understanding the effect of an item or event on cash flow for the given period.

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- Materiality thresholds relating to information about line items would be applied through Sarbanes-Oxley / Staff Accounting Bulletin No. 99 guidance for balance sheet and income statement disclosures. For liquidity disclosures, entities would apply the same balance sheet threshold. Internal control and man-hour considerations would be a factor in performing an assessment under this framework. However, entities currently spend ample time completing checklists and applying the associated controls, as such, we believe the right cost-benefit balance could be achieved with the right amount of field testing by following this or a similar model.

We believe the above materiality and probability approach, which is rooted in previously established guidelines and practice, would promote the DP's goal of entities applying judgment to disclose relevant footnote information that aligns with management's views, in turn, providing the most decision-useful information to investors.

We appreciate the opportunity to present our views on this subject and welcome the opportunity to review them with you either in person or by telephone. Thank you for your attention and consideration of our comments. If you should have any questions, please feel free to contact me at 781-522-5833.

Respectfully,



Michael J. Wood  
Vice President, Controller and Chief Accounting Officer