Northrop Grumman Corporation
2980 Fairview Park Drive
Falls Church, Virginia 22042-4511

August 13, 2015

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

Subject: File Reference No. 2015-270

Dear Mr. Golden:

We are pleased to comment on the proposed Accounting Standards Update *Compensation – Stock Compensation (Topic 718).* Northrop Grumman is a leading global security company with annual sales of $24 billion and approximately 65,000 employees.

We appreciate the Board's efforts to reduce the complexity of current accounting standards. We support several of the proposed changes, including the classification of excess tax benefits as an operating activity in the statement of cash flows and classification of employee taxes paid when an employer withholds shares as a financing activity; expansion of the exception to liability classification related to amounts withheld for employee taxes; and the calculation of forfeitures based on an entity's established accounting policy. In our view, each of these proposals meets the Board's simplification objective while maintaining the conceptual nature of the underlying transaction.

With regard to the recognition of excess tax benefits and tax deficiencies in the income statement; however, we do not agree conceptually with the Board's proposal and do not believe it will reduce complexity, as follows:

- Conceptually, for a share-based award, we believe the amount of tax benefit recognized in the income statement should correlate with the amount of compensation expense recognized in the income statement. Because compensation expense is generally fixed on the grant date, related tax benefits should also be fixed on that date, with any future excess tax benefits or deficiencies recognized in additional paid in capital. In our view, this treatment is consistent with the nature of the underlying transactions because the grant of a share based award is inherently a compensation transaction and the exercise of a share based award is inherently an equity transaction.

- As to simplification, we do not believe this change would reduce cost or complexity because any benefits gained by eliminating the additional paid in capital pool would likely be more than offset by new processes and systems required to forecast and record quarterly income tax expense. Further, because a company's quarterly effective tax rate could be significantly impacted by its stock performance, we believe the Board's proposal would drive a lack of comparability between companies and could result in some electing to present a new non-GAAP measure showing their effective tax rate before the impact of excess tax benefits and deficiencies.

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

Respectfully,

Michael Hardesty

Michael Hardesty
Corporate Vice President, Controller
and Chief Accounting Officer