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Technical Director, File Reference No. 2016-200  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

Subject: Exposure Draft: Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

Dear Sir or Madam:

The Aerospace Industries Association (AIA) appreciates the opportunity to comment on the proposed Accounting Standards Update *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* (the “Exposure Draft or “ED”). AIA was founded in 1919 and is the premier U.S.-based trade association, representing more than 300 major aerospace and defense manufacturers and suppliers employing approximately 844,000 aerospace and defense workers. Our members represent the leading manufacturers and suppliers of civil, military and business aircraft, unmanned aircraft systems, missiles, space systems, aircraft engines, material and related components, equipment services and information technology.

Our comments concern Questions 2, 6, and 7 of the Exposure Draft.

**Question 2: Would it be useful to require presentation of the prior service cost or credit component separately from the other components? Should all of the components other than the service cost component (for example, the prior service cost or credit component) be presented outside a subtotal of income from operations, if one is presented? Why or why not?**

We believe that providing the prior service cost or credit component separately from other components would not enhance the financial statements, and would add further complexity. The detailed components of net benefit cost are already contained in the defined benefit and other postretirement plan footnote disclosures.

**Question 6: Would the proposed amendments be operable without incurring significant incremental costs by entities (such as not-for-profit entities, entities that enter into cost-plus contracts or government contracts including but not limited to contracts under Cost Accounting Standards Board regulations, and entities that allocate cost from cost pools)? Why or why not?**

We understand the reason for the proposal to present service cost separately from the other components of net benefit cost; however, we have concerns as it relates to the application when capitalizing costs for companies in the Aerospace and Defense industry.

Because U.S. Government regulations require that the cost of pension and other post-retirement benefits be charged to our contracts in accordance with the Federal Acquisition Regulation (FAR) and the related U.S. Government Cost Accounting Standards (CAS) that govern such plans, we calculate retiree benefit costs under both CAS and U.S. GAAP for Financial Accounting Standards (FAS).

CAS retiree benefit costs are considered allowable costs that are charged to contracts with the U.S. Government. Therefore, as of a reporting date, certain allowable CAS retiree benefit costs are generally capitalized and included as part of contract inventory, deferred contract costs, or their equivalent.

For added clarity and to drive more consistency in the industry, we recommend the Board state in the final standard that notwithstanding this Accounting Standards Update (ASU), consistent with the Board's decisions and final language in FASB ASC Topic 340, *Other Assets and Deferred Costs - Contracts with Customers*, all allowable costs that are explicitly recoverable from a customer under a contract be eligible for deferral. They should also be periodically evaluated for impairment.

**Question 7: How much time would be necessary to adopt the proposed amendments? Should early adoption be permitted? Would the amount of time needed to apply the proposed amendments by entities other than public business entities be different from the amount of time needed by public business entities? Why or why not?**

We recommend the effective date of this standard be no earlier than that of the new revenue standard Accounting Standards Update 2014-09 - *Revenue from Contracts with Customers* (Topic 606). This aligned timing may help companies in the aerospace and defense industry with the capitalization concerns noted above due to the significant decrease in the amount of inventory expected upon adoption of the new revenue standard.

## **Conclusion**

AIA and its member companies appreciate your consideration of our views. If you should have any questions, please feel free to contact Mr. Ronald J. Youngs of my staff at 703-358-1045, or myself at 703-358-1087.

Sincerely,



Mr. John Luddy  
Vice President, National Security Policy