Raytheon

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July 27, 2011

Ms. Elizabeth M. Murphy
Secretary
U.S. Securities and Exchange Commission
100 F. Street, NE
Washington DC 20549-1090

RE: **Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers Exploring a Possible Method for Incorporation A Securities and Exchange Commission Staff Paper**

Dear Ms. Murphy:

Raytheon Company ("Raytheon") appreciates the opportunity to review and comment upon the Staff Paper, Exploring a Possible Method of Incorporation (the "Staff Paper"), issued by the U.S. Securities and Exchange Commission (the "Commission") on May 26, 2011. Raytheon, with 2010 sales of $25 billion, is a technology and innovation leader specializing in defense, homeland security and other government markets throughout the world. With a history of innovation spanning 89 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. With headquarters in Waltham, Massachusetts, Raytheon employs 72,000 people worldwide.

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 Commission's ongoing evaluation of whether, when, and how International Financial Reporting Standards ("IFRS") should be incorporated into the financial reporting system for U.S. issuers. We have spent a considerable amount of effort monitoring and analyzing the potential impact of the convergence efforts between the Financial Accounting Standards Board ("FASB") and the International Accounting Standards Board ("IASB") and other FASB or IASB projects. Moreover, we have been active in providing input and feedback to both the FASB and IASB on the potential impact of standards in development on us, our industry and others through response letters, roundtable discussions, and industry organizations of which we are members.

We commend the Commission for its ongoing commitment to a strong, transparent, and robust financial reporting system for U.S. capital markets. Raytheon shares this commitment and appreciates the Commission's efforts to enhance its understanding of the potential impact incorporating IFRS into the reporting system for U.S. issuers will have on U.S. issuers and investors. We also commend the FASB and the IASB for their efforts to improve financial reporting standards worldwide and narrow the differences between generally accepted accounting principles in the United States of America ("U.S. GAAP") and IFRS. We appreciate the Commission's efforts to engage U.S. constituents in the

Commission's evaluation of IFRS and encourage the Commission to continue these efforts.

Overall, we agree that a single, high-quality set of accounting standards applied effectively and efficiently across all jurisdictions intuitively would have benefits for the global capital markets and to U.S. investors. We also believe IFRS is the most viable alternative to serve as this single worldwide set of accounting standards, as it has already been adopted by over 100 countries, and would support a transition to IFRS if the benefits of conversion outweigh the costs. However, we are concerned that due to differences in legal and regulatory environments, it may not be practical to operate within a single set of global accounting standards in all cases. The "Condorsement" alternative described in the Staff Paper sets forth an approach that may be a viable, cost effective method for adopting IFRS into the financial reporting system for U.S. issuers and while we generally support "Condorsement" as an approach to adopting IFRS for U.S. issuers, we have some significant concerns regarding the approach. For example, we strongly believe that it may be necessary to diverge from certain global accounting standards (e.g., International Accounting Standard ("IAS") 37, *Provisions, Contingent Liabilities and Contingent Assets)* due to factors unique to the U.S. legal environment. Additionally, consistent with our letter dated April 20, 2009 to the Commission on the Roadmap for the Potential Use of Financial Statements Prepared in Accordance With International Financial Reporting Standards by U.S. Issuers (the "Roadmap"), we have certain concerns, including but not limited to, whether U.S. interests would be protected to the same extent they are today; how other regulatory agencies will be incorporated into this process; and whether all costs have been considered to ensure the benefits to shareholders and U.S. investors are not negatively impacted.

Our concerns regarding "Condorsement" generally fall into the following categories:

- Loss of control over standard-setting process;
- Our unique regulatory environment;
- Our unique legal environment;
- Adaptability of IFRS for U.S. markets;
- Complexity of costs may exceed the Commission's current estimates / transition plan; and
- Other general topics for consideration.

Loss of control over standard-setting process

In recent years, the FASB and IASB have made significant progress in achieving the goals set forth initially in the 2002 Norwalk Agreement, which was updated in their Memorandum of Understanding ("MoU") issued in 2006 and subsequently updated in 2008. The projects included in the MoU initiative have the potential to significantly impact issuers' costs, processes, and financial results. We believe that the FASB has played an instrumental role in forming the proposed guidance. The FASB's influence has helped to ensure that issues and concerns of U.S. constituents, in particular those affecting certain industries, have been considered and in many cases are appropriately reflected in the proposed guidance. The benefits of the FASB's work has not stopped at U.S. constituents; because these are joint projects, all constituents who have adopted or are in the process of adopting IFRS have benefited from the influence the FASB has imparted throughout the process. Aside from the FASB's involvement however, it does not appear that any other local standard-setter has been provided the platform to participate actively throughout the standard-setting process. We encourage the Commission and the FASB to collaborate with the IASB to develop a process that better integrates local accounting standards boards ("local boards") with the IASB process in order to develop high-quality standards for domestic and cross-border transactions and to ensure that nuances associated with "home-country" local interests are considered. One approach that may better align local boards with the IASB would be for IASB members to serve as delegates of prominent local boards.

In addition to the above suggestion that the IASB integrate local boards in the standard-setting process, we agree with maintaining the FASB as the national standard-setter for the U.S. (with direct oversight by the Commission to protect U.S. interests). We also agree with retaining U.S. GAAP, and, to the extent IFRS standards ("IFRSs") are superior to current U.S. GAAP standards, incorporating them into U.S. GAAP over an appropriate period of time. The Staff Paper outlines several possible ways in which the FASB could continue to participate in the IASB's standard-setting process. However, we are concerned that the FASB's influence in the global standard-setting process would be diminished and that the FASB would be only one of numerous constituents of the IASB. Furthermore, a diluted role in the standard-setting process may result in less comprehensive and decision-useful standards to U.S. constituents. To address this concern, we recommend that the Commission and the FASB work with the IASB to develop a formal role for the FASB similar to the knowledge-sharing and collaboration efforts under the MoU.

Additionally, the Staff Paper illustrates how the FASB would be able to retain authority to modify or add to the requirements of IFRSs; reject them in their entirety; or provide an alternative solution for topics that affect U.S. constituents differently than their counterparts in other jurisdictions. Based on the Staff Paper, this approach appears to be consistent with the current approach of other national standard-setters. We support this methodology if the FASB maintains an active role in standard-setting as outlined above, but encourage the FASB to develop a formal process for U.S. constituents to continue to provide their input and express concerns.

Our unique regulatory environment

One of the principles on which "Condorsement" is predicated is the retention of U.S. GAAP through the incorporation of IFRSs into U.S. GAAP over a finite period. One advantage to this approach noted in the Staff Paper is that by retaining U.S. GAAP as the basis for financial reporting for U.S. issuers, the complexities associated with changing references to U.S. GAAP within U.S. laws, contractual documents, regulatory requirements and guidelines, and other similar documents would be mitigated. While we agree in part with this position, we believe the adoption of IFRSs into U.S. GAAP will not accommodate all instances where U.S. GAAP is referenced. Accordingly, we believe this principle still requires further assessment and transparency into the impact "Condorsement" could have on other regulatory agencies. Our specific concerns follow.

We are a U.S. Government contractor and are thus subject to cost accounting regulations such as the Cost Accounting Standards ("CAS") and the Federal Acquisition Regulations ("FAR"), which provide specific rules regarding the measurement, accounting period assignment, and allocation of contract costs. These rules, however, are not comprehensive sets of accounting rules. As a result, U.S. GAAP is applied to certain costs for cost accounting purposes, as well as for financial reporting. Thus, our underlying cost accounting records include a mix of costs based on CAS/FAR and U.S. GAAP. As a practical matter, we use U.S. GAAP for financial reporting purposes, with only minimal adjustments necessary to achieve full compliance with our CAS/FAR requirements. However, the adoption of IFRS and the inherent differences between IFRS and cost accounting regulations could generate additional complexities and costs to us and other U.S. Government contractors due to an increase in the number and complexity of the adjustments that require maintenance of separate accounting records. Expanding the number of differences between financial accounting and cost accounting would likely require U.S. Government contractors to modify existing business processes, controls, and information technology systems to maintain separate financial accounting and cost accounting records. Currently, several IFRS accounting areas (e.g., fair value adjustments to assets and capitalization of research and development costs), if adopted into U.S. GAAP, would be in direct conflict with the regulatory requirements for cost accounting requirements of U.S. Government contractors.

Furthermore, the adoption of IFRS could result in changes to accounting practices for the measurement, assignment, and allocation of costs for cost accounting purposes to the extent that existing references to U.S. GAAP result in accounting changes to the CAS and FAR rules. As a result, the adoption of IFRS could have an impact on costs allocated and charged to U.S. Government contracts. A change in cost accounting practice such as this would require a complex, time consuming, and costly process between the U.S Government and contractors to resolve such issues. Therefore, we believe that the Commission should not move forward with mandatory adoption of IFRS or the incorporation of IFRSs into U.S. GAAP until additional due diligence is performed to more fully research and understand these potential changes and their effects.

The potential effects of the concerns noted above could be mitigated to the extent the Commission and the FASB were successful in working with other regulatory agencies (e.g., the Office of Federal Procurement Policy and the Procurement Executives in the Department of Defense (“DOD”), General Services Administration (“GSA”) and National Aeronautics and Space Administration (“NASA”)) to align their related accounting requirements with IFRS. We recommend the Commission and the FASB work with all regulatory agencies to encourage them to evaluate the impact of IFRSs. One approach may be to coordinate roundtable discussions between issuers and rule-makers in other regulatory agencies to discuss potential unintended impacts and mitigation solutions. Additionally, prospective adoption of IFRSs could alleviate some concerns associated with costs and the complexities of maintaining separate books if regulatory agencies were also to apply new guidance prospectively. For example, CAS/FAR rules could be amended to align with the changes resulting from the incorporation of IFRSs into U.S. GAAP, such that the amended CAS/FAR rules, too, would be effective on a prospective basis.

Our unique legal environment

Consistent with our letter dated April 20, 2009 to the Commission in response to the Roadmap, we are concerned that due to the increased judgment required to apply IFRS, the adoption of certain IFRSs into U.S. GAAP may result in a higher number of acceptable accounting alternatives for similar transactions (e.g., contingencies pursuant to the FASB’s Accounting Standards Codification® 450, *Contingencies*). Due to the litigious nature of the current U.S. legal environment, this could potentially result in increased audit costs and legal defense costs, particularly to defend or support an alternative position.

Since the U.S. market consistently has shown a bias towards more detailed standard setting, we are concerned the current IFRSs will have to expand substantially or U.S. issuers and auditors will search for alternatives to fill the void from the lack of guidance. All of the major accounting firms currently have very detailed interpretations on how to apply IFRS and U.S. issuers will likely have to increase reliance on the major accounting firms for detailed guidance. It is not uncommon for the major firms to have different interpretations on certain key accounting issues under IFRS. We believe dependence upon accounting firms to provide detailed guidance is far less desirable than reliance on an established organization that embodies due process and independence (such as the FASB). We also believe that firms with little international presence could be disadvantaged in the market.

In addition, we believe that certain other potentially problematic challenges of the U.S. market that are different from those encountered by previous countries that adopted IFRS must also be addressed. Our mature U.S. GAAP accounting has evolved over 75 years from our unique regulatory, market and legal environment. The accounting profession's early standard-setting attempts were rooted in defining acceptable methods of accounting, rather than in promoting consistency. Ultimately, this principle-based guidance was criticized for permitting a wide range of accounting alternatives and fostering a lack of financial reporting comparability, as well as for generating conflicts with the Commission. For example, ARB Opinion No. 9, *Reporting the Results of Operations* was in conflict with the Commission's views regarding alternative earnings per share calculations and therefore eventually replaced with ARB Opinion No. 15, *Earnings per Share,* to align with the Commission.

The 1972 *Report of the Study on Establishment of Accounting Principles* (commonly referred to as the "Wheat Committee Report" prepared at the request of the American Institute of Certified Public Accountants) clearly recommended formation of an organization devoted towards fundamentally narrowing accounting alternatives with the ultimate objective of improving financial reporting. This study resulted in the formation of the FASB, partly to provide accounting guidance for increasing complex transactions, but also to encompass the needs of all constituencies. In our view, although clearly far from perfect, as was demonstrated in the recent financial crisis, U.S. GAAP embodies the most comprehensive evolution of accounting thought and has generated a high degree of financial reporting credibility with U.S. investors, issuers and markets.

The litigious nature of the U.S. legal environment also impacted accounting standard development. While the precise impact of our litigious society on the U.S. economy may be disputed, a 2005 Towers Perrin Tillinghast study, *U.S. Tort Costs and Cross-Border Perspectives,* reports that U.S. tort costs as a percentage of GDP are significantly higher compared to other industrialized nations. Other studies examining why the U.S. legal system is internationally criticized compared the U.S. legal environment to others sharing a similar common-law structure (e.g., United Kingdom) and concluded there were several features specific to the U.S. that encouraged litigation.

Former Chief Accountant of the Commission, Walter P. Schuetz, raised this point in his 1993 speech, *The Liability Crisis in the U.S. and Its Impact on Accounting.* Therein, Mr. Schuetz expressed the opinion that ambiguous accounting standards were partly the cause for the 1980s savings and loan debacle and accounting-related litigation – not audit failure. Furthermore, he cautioned against general rules and application of too much judgment as reducing comparability in favor of specific rules and "clearly articulated standards." Concern existed then, as it does today, that a principles-based system such as IFRS could expand the threat of litigation within the U.S., making general principles-based standards possibly incompatible to our current environment without tort reform.

Based on the above, we feel strongly that certain IFRSs would not be suited for the unique U.S. environment, particularly those associated with our legal environment. It is our understanding that under "Condorsement" the FASB would have the authority to modify or add to the requirements of IFRSs; reject them in their entirety; or provide an alternative solution for topics that affect U.S. constituents differently than their counterparts in other jurisdictions. We believe "Condorsement," together with retaining the FASB as the U.S. accounting standard- setting body and providing it with the flexibility to modify IFRSs, could sufficiently address the uniqueness of the U.S. legal environment. Again, we encourage the FASB to develop a process for U.S. constituents to provide their input and concerns related to instances in which they would not be in favor of adopting certain IFRSs.

Adaptability of IFRS for U.S. markets

It is our understanding that the FASB would retain the authority to fully adopt IFRSs into U.S. GAAP; modify or add to the requirements of IFRSs; reject them in their entirety; or provide an alternative solution. As discussed above, we believe it is necessary for the FASB to retain this authority and adapt IFRS to protect U.S. constituents and investors. The Staff Paper also outlines various ways the FASB could participate in the IASB's standard-setting process. It is unclear whether the FASB would continue its outreach efforts to industry groups that exist today. These efforts have been instrumental to our ability to highlight unique issues that could develop from proposed guidance due to the nature of our industry. We encourage the FASB to continue with these outreach efforts, as they contribute to providing necessary insight in developing high-quality accounting standards that can be applied effectively and efficiently across all industries and jurisdictions.

Complexity of costs may exceed the Commission's current estimates / transition plan

The transition strategy outlined in the Staff Paper would be a natural progression towards adopting IFRSs into U.S. GAAP. This strategy would provide many opportunities to U.S. constituents that otherwise would not be available under other transition strategies, such as under a "big bang" approach. A time-phased approach, as outlined in the Staff Paper, would allow for a more thorough analysis and implementation of each standard at both a macro level by the Commission and the FASB (i.e., the impact adoption of each standard would have on U.S. GAAP as a whole), as well as by individual constituents and other regulatory agencies (e.g., the Office of Federal Procurement Policy and the Procurement Executives in DOD, GSA and NASA). At a macro level, the FASB would analyze the impact each standard would have on U.S. constituents if adopted into U.S. GAAP based on category in which the standard aligns. This process, in lieu of a "big bang" approach, would better highlight areas of IFRSs that may cause unintended financial reporting issues prior to their adoption. Furthermore, U.S. constituents would also have the opportunity to evaluate the impact of each standard on their businesses and provide comments to the FASB prior to their adoption. Collectively, the results of this approach could contribute to strengthening the quality of global accounting standards. We agree with the Staff Paper that this strategy would likely lessen costs by minimizing situations in which U.S. constituents adopt standards that are replaced shortly thereafter by a new or existing IFRS standard and by maximizing the number of standards which could be applied prospectively. Additionally, prospective adoption could alleviate concerns U.S. constituents have expressed with IFRS 1, *First-time Adoption of International Financial Reporting Standards,* and the costs associated with retrospective presentation.

The Staff Paper proposes a transition strategy for initial incorporation of individual IFRSs into U.S. GAAP by classifying them into three categories. Generally, we agree with the three proposed categories and how each category would be adopted into U.S. GAAP. However, it is unclear whether U.S. constituents will have the opportunity to provide the FASB with their views on the transition plan and, particularly, how the standards in "Category 3" (i.e., IFRSs not subject to standard-setting) may affect their businesses. We recommend once the Commission and the FASB develop the transition plan (i.e., once all IFRSs have been classified into the three categories), the plan be exposed for comments by U.S. constituents, including but not limited to, whether the proposed timing and sequence of adoption is reasonable with respect to the effort and cost to implement. We believe giving U.S. constituents the ability to provide their overall views on the transition plan and their views on IFRSs within Category 3 would enhance the FASB's overall due process.

Moreover, if the Commission and the FASB proceed with "Condorsement" and the transition strategy outlined in the Staff Paper, we recommend adjustments and refinements to the plan due to factors such as changes within the IASB's agenda be reflected within the transition plan and communicated similarly to how the FASB communicates changes within its agenda today. Additionally, to provide continued transparency into the process, we recommend the Commission and the FASB continue to provide regular progress reports on these efforts.

Regardless of the model followed for a transition to IFRS, U.S. constituents' internal controls likely will be impacted. A gradual implementation approach would be beneficial in assessing the impact the adoption of each IFRS into U.S. GAAP would have on internal controls. Similar to the discussion above, this would permit U.S. constituents with more time to perform a comprehensive analysis of the impact and could provide considerable cost savings.

In addition to the costs outlined above, information technology ("IT") costs also need to be considered. Generally, capital requirements for significant IT-related projects (e.g., new modules with new or expanded capacity) are planned and funded accordingly over the next five years. Due to funding constraints, adjustments to that capital plan generally cannot be enacted for approximately two years. An appropriately staged transition plan should take into account the capital requirements and the necessary funding for significant IT-related projects that is available under U.S. constituents' annual operating plans.

Another benefit that a time-phased approach provides is a gradual implementation, which would permit experienced professionals (e.g., audit committee members) additional time to enhance their knowledge of IFRS. We believe this is essential to fulfilling the objective of the audit committee, particularly the role of audit committee financial expert. This strategy would also provide the U.S. constituents and the investment community time to better understand and communicate the impact the adoption of IFRS will have on their businesses.

Other general topics for consideration

In addition to the observations outlined above, we would like to understand better the additional areas that could affect the cost of adopting IFRSs into U.S. GAAP. We believe governance and funding of the IASB is one additional topic that should be considered. If the principles on "Condorsement" and the transition plan outlined in the Staff Paper were enacted, it is unclear how the funding of the FASB would be impacted. With regard to cost, it would be important for constituents to understand whether the funding of the FASB would remain consistent with past funding levels and whether planned and discretionary contributions to the IASB on the FASB's behalf would likely increase or remain consistent with prior years.

Another topic to consider is how the "Condorsement" process would interact with the FASB's current project on assessing whether private companies should have their own set of standards. We recommend the FASB consider the interaction of these two projects and the cost impact on merger and acquisition activities of private companies by U.S. constituents. As private company accounting standards and public company accounting standards diverge, the cost of both initial public offerings and merger and acquisition activities will increase, which may limit private companies' access to capital markets, both domestically and internationally. Therefore, we suggest the FASB, to the extent possible, limit differences between private company accounting standards and public company accounting standards.

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

Cc: Chairman Mary L. Schapiro
Commissioner Luis A. Aguilar
Commissioner Kathleen L. Casey
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