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International Accounting Standards Board
30 Cannon Street
London, EC4M 6XH, United Kingdom

Dear Sir/Madam:

United Technologies Corporation (UTC) welcomes the opportunity to share its views on the International Accounting Standards Board (IASB) discussion paper *"Preliminary Views on Amendments to IAS 19 Employee Benefits."* UTC is a \$60 billion global provider of high technology products and services to the building systems and aerospace industries, operating in 186 countries around the world.

With operations throughout the world, UTC has a significant number of post-employment benefit arrangements with a total benefit obligation at December 31, 2007 in excess of \$20 billion. Since many of our foreign companies already report under International Financial Reporting Standards (IFRS), and assuming UTC transitions to IFRS in the next few years, amendments to IAS 19 will have a significant impact on our company.

We applaud the IASB's effort to amend IAS 19. However, UTC believes that the IASB should first finalize the financial statement presentation project, as it could have a significant impact on the presentation and recognition of employee benefit plan activity.

UTC also feels that the scope of the discussion paper is too broad. Specifically, we recommend that the IASB consider dividing it into two separate projects: one to address the recognition and presentation of defined benefits and one to address the accounting for contribution-based promises. We view the proposed guidance for contribution-based promises to be very complex, theoretically hard to justify, and potentially very significant in effect. In our opinion, these factors warrant treating contribution based promises as a standalone project.

As a final overall recommendation, we believe the IASB should strive to increase the transparency and understandability of the accounting for employee benefits activity. For this reason, we cannot support the proposed immediate income statement recognition of all benefit plan activity. It seems counterintuitive to recognize through the income statement short term valuation fluctuations for long duration assets. Such treatment will significantly increase the volatility of a company's reported results of operations, particularly in periods of market volatility. As a result, short term pension valuation fluctuations could completely obscure the underlying economics of a company's operations, thereby reducing the transparency of its reported results. This will lead many investors and analysts to employ non-IFRS measures. In our view, the IASB should strive to enact standards that make financial statements easier to understand, reflective of economic reality, and hence more transparent.

For these reasons, as further explained in our attached responses to the specific questions raised by the IASB, we recommend the IASB consider the following:

1. Complete the financial statement presentation project prior to starting the project on accounting for the recognition and presentation of post-employment benefits.
2. Create a separate, standalone project covering the accounting for contribution-based promises.
3. Ensure that transparency promoting principles are the foundation upon which the proposed accounting is built.

We would be happy to further discuss our view on this proposal with the IASB members or its staff.

Sincerely,

Margaret M. Smyth

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Vice President, Controller
United Technologies Corporation

ATTACHMENT: Observations and responses on the questions raised by the IASB in this discussion paper:

2. Are there factors that the Board has not considered in arriving at its preliminary views? If so, what are those factors? Do those factors provide sufficient reason for the Board to reconsider its preliminary views? If so, why?

We believe that the Board should consider improved transparency of financial statements to be the key goal for this and all projects. Moreover, from a practical perspective, the IASB should consider the burden that changing standards will have upon companies and the confusion it will create for investors. With that background, we recommend that the Board first conclude the financial statement presentation project before addressing the accounting for employee benefit plan recognition and presentation. To do otherwise may require that companies change their accounting for employee benefit plans twice in the near term, creating further confusion for investors in an already complex accounting topic.

Once the financial statement presentation project is finalized, the Board will be free to consider the full implications of changing recognition and presentation of employee benefits.

3a. Which approach to the presentation of changes in defined benefit costs provides the most useful information to users of financial statements? Why?

We believe Approach 3 provides the best information to the users of financial statements. Approach 3 has the balance that is necessary to compare financial statements from period to period and it is the approach that is most reflective of how companies actually manage their defined benefit plan assets. We compared the results of the three approaches outlined to that which we employed in our 2007 financial statements, and found Approach 3 to be relatively consistent. This contrasts significantly with Approach 1, which would have resulted in UTC recognition of gains on pension assets of almost $2 billion, as opposed to pension expense. The significant difference under Approach 1 is primarily driven by actual returns on investments and illustrates the volatility that would be introduced if these items were immediately recognized in the income statement rather than in OCI. The likelihood is that in 2008, we will see the opposite occur due to the overall market decline. From a practical point of view, Approach 1 creates an administrative burden, as we currently only have actuarial analyses performed at the year-end balance sheet date. Approach 1 would either require quarterly actuarial analysis, if each quarter is measured as a discrete period, or a potentially significant annual adjustment in the fourth quarter of each year to reflect actual returns on plan results. Regardless, either approach would significantly increase the complexity of the accounting for benefit plans and create further volatility in the financial statements. In addition to creating an administrative burden, the information produced would be of little value to investors, as it would cloud the financial statements with short-term fluctuations in assets that are maintained for long-term obligations.

Approach 3 requires a method to calculate interest income on plan assets. Paragraph 3.29 in the discussion paper suggests three different methods to estimate this. We support the method that calculates interest income using the expected return on plan assets. This method, which is consistent with IAS 19 today, reflects a return based on the portfolio mix of the underlying plan assets. We do not believe that using market yields on high quality corporate bonds to calculate interest income accurately represents interest income on plan assets. Using market yields on an asset portfolio with a significant concentration in equity securities can understate the interest income reported in the income statement under Approach 3 (under Approach 3, actual returns > or < interest income are reported in OCI).

We do not object to Approach 2 in the discussion document that presents service cost in the income statement and all other costs in OCI. However, for consistency with current reporting, we believe that both interest cost and interest income should be reflected in the income statement.

Lastly, all three approaches in the discussion document require that experience gains/losses on liabilities be reported in the income statement. This treatment is inconsistent with the current accounting treatment under IAS 19. Furthermore, experience gains/losses on liabilities are extremely difficult to predict and forecast, and are subject to change in future periods. For this reason, we believe these gains/losses should be recorded in OCI.

3b. In assessing the usefulness of information to users, what importance do you attach to each of the following factors, and why:
(i) presentation of some components of defined benefit cost in other comprehensive income; and
(ii) disaggregation of information about fair value?

We consider the presentation of some of the components of defined benefit cost in OCI as very important to limit the volatility of the impact of these items on the financial statements. As discussed previously, increased volatility could cause the required accounting and disclosures in the financial statements to become more complex and difficult for the user community to understand and possibly make comparisons between companies more difficult.

We are not as concerned with disaggregation requirements and generally believe that providing the users with more information is beneficial. We do feel that a balance must exist, and information provided must be perceived as useful to the users but not overly burdensome for preparers to compile. Certain of the proposed approaches appear to us to be administratively difficult to implement and maintain.

Currently, under IAS 19, there are three options for gain and loss recognition: (1) delayed recognition using the corridor approach, (2) immediate recognition through the income statement, or (3) immediate recognition through OCI. The existence of alternatives reduces the comparability and limits the usefulness of the financial statements to users. UTC, however, cannot support immediate recognition, as it seems counterintuitive to recognize through the income statement short term valuation fluctuations for long duration assets. Such treatment will significantly increase the volatility of a company's reported results of operations, particularly in periods of market volatility. As a result, short term pension valuation fluctuations could completely obscure the underlying economics of a company's operations, thereby reducing the transparency of its reported results. This will lead many investors and analysts to employ non-IFRS measures. We do endorse delayed recognition through the corridor approach, as it is more reflective of how companies actually manage their pension assets and results in more transparent financial reporting.

3c. What would be the difficulties in applying each of the presentation approaches?

Obtaining the necessary data on a timely basis will be the most difficult aspect in applying any of the three presentation approaches. The information that is actuarially determined should be readily available, with some possible analysis to better understand it. The most problematic information to obtain will most likely be the returns on investments, which is needed to break the returns into its required components, especially for Approach 3.

Another consideration is how often the data will be required. We support the remeasurement of benefit obligations and related plan assets on an annual basis, and oppose it on an interim basis. Remeasurement at each interim period will result in significant additional effort and expense as data, which is currently gathered to support the annual remeasurement, would now have to be compiled on a quarterly basis. In addition, quarterly data collection may prove extremely difficult for the actuarial firms that will need to adjust their processes to be able to meet these new requirements.

4a. How could the Board improve the approaches discussed in this paper to provide more useful information to users of financial statements?

The three approaches for presenting post-employment benefit cost information set forth in the Discussion Paper would dramatically alter the presentation and classification of employee benefit plan activity. Before requiring such a significant shift in reporting post-employment plan activity, the results of the financial statement presentation project should be considered. For example, some users regard all changes in post-employment assets and obligations as financing activities. Other users view certain changes in these assets and liabilities as operating activities. A discussion on amending IAS 19 would be best served by dialogue on these types of classification questions. Such a dialogue, however, can only happen once the project on financial statement presentation is finalized. UTC believes that investors, analysts and other users of financial statements would be best served by the integration of post-employment plan activity into the finalized financial statement presentation model.

Furthermore, immediate recognition of all benefit plan activity through the statement of profit and loss will have a significant impact on the net income of any company which maintains employee benefit plans. We believe such a change would deteriorate the usefulness of the statement to users of financial statements. The statement of profit and loss is first and foremost a tool to assess the economic performance of an entity. Changes in an entity's long term plan assets due to short term fluctuations in fair value and changes in assumptions are independent of, and largely irrelevant to, the entity's current performance. In fact, we believe that many users of financial statements would only seek to remove the impact of these changes from the statement of profit and loss. Indeed, plan asset fluctuations would dilute the transparency of the statement of profit and loss, creating significant volatility that would ultimately mask the underlying performance of the business and management.

11a. What level of disaggregation of information about changes in the liability for contribution-based promises is useful to users of financial statements? Why?

The discussion document defines a new category of promises called contribution-based promises. Under this new definition, cash balance plans would now be accounted for as a contribution-based promise and measured at fair value. This is a significant deviation from existing requirements that treat cash balance plans as defined benefit plans for which the liability is actuarially determined. This change will have a significant impact on the design and reporting of cash balance plans. Over the last several years, many companies have converted their retirement plans from a final average earnings formula to a cash balance formula. As such, the same plan could have employees under a final average earnings formula and other employees under a cash balance formula. The proposals presented in this discussion document would require companies to segregate the employees under separate plans and account for each plan accordingly.

In evaluating the usefulness to users of financial statements, consideration needs to be given to whether the information would improve the decision-usefulness of financial reporting and make the amounts reported in the financial statements more understandable. IAS 19 currently does not require disaggregation of the costs of defined contribution plans. For defined benefit plans, IAS 19 requires disaggregation of the change in the defined benefit liability into service cost, interest cost and actuarial gains/losses. As discussed in this document, service cost for a contribution-based promise is the increase in the present value of the benefit obligation resulting from employee service in the current period. Thus, disaggregating service costs from other components of cost is useful to users because it provides information about recurring employee costs.

Lastly, in order for financial statements to be useful, the underlying accounting guidance needs to be consistently applied by preparers of financial statements. The discussions in this document regarding the differences between defined benefit promises and defined contribution promises include a fair amount of subjectivity. Specifically, promises in one country may be significant different from promises in another country, hence increasing the subjectivity in applying the standard. As a result, risk exists that the principles proposed in this document will not be consistently interpreted and applied.

11b. Do you agree that it is difficult to disaggregate changes in the contribution-based promise liability into components similar to those required for defined benefit promises? If not, why not?

Yes. As stated in section 7.34 of this proposal, the Board's preliminary view is that the measurement of an entity's liability for a contribution-based promise should incorporate the following characteristics:

- Explicit, unbiased, market-consistent, probability weighted and current estimates of the contractual cash flows.
- Current market discount rates that adjust the estimated future cash flows for the time value of money.
- The effect of risk, other than the risk that the terms of the benefit promise change.

Given the complexity of the fair value approach to determining the fair value of a liability-based promise, it will be difficult to disaggregate changes in the liability into components similar to those required for defined benefit promises that are actuarially determined.

12a. Should changes in the liability for contribution-based promises be presented in profit or loss, along with all changes in the value of any plan assets? Why?

The immediate recognition provisions discussed in this document will result in reporting the plan's funded status on the balance sheet. This will introduce significant volatility to companies that currently recognize gains and losses using a delayed recognition option. Also, if the gains and losses relating to plan assets are recognized through the statement of profit and loss, operating results for companies with substantial plan assets will be dominated by changes in the funded status of their plans. As such, changes in the value of plan assets associated with contribution-based promises should not be reported through the statement of profit and loss.

12b. Should changes in the liability for contribution-based promises mirror the presentation of changes in the liability for defined benefit promises (see Chapter 3)? Why?

As noted in section 1.2 of the discussion document, the purpose of this project is to respond to criticism from users and preparers of financial statements that the existing accounting requirements fail to provide high quality, transparent information about post-employment benefit promises. In addressing those issues, changes in liabilities for contribution-based promises should be consistent with the presentation of changes in the liabilities for defined benefit promises as in many cases, both promises offer similar benefits. Different presentation requirements for defined benefit promises and contribution-based promises would only further confuse users and preparers of financial statements and detract from transparency.