26 September 2008

International Accounting Standards Board
30 Cannon Street
LONDON
EC4M 6XH

Dear Sir/Madam,

Re: *Preliminary Views on Amendments to IAS19 Employee Benefits*

We welcome the invitation to comment on this Exposure Draft and write on behalf of Cobham plc, a UK based FTSE 100 and S&P Europe 350 company in the Aerospace and Defence sector.

We are supportive of the IASBs conceptual framework project and have responded in accordance with the invitation to comment to the specific questions asked in the Discussion Paper.

Question 1
Given the objective of the IASB project to address specific issues in a limited time frame, are there additional issues which you think should be addressed by the Board as part of this project? If so, why do you regard these issues as a matter of priority?

There are no other issues that we think should be addressed at this stage.

Question 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?

While we have reached different conclusions on some of the matters considered in this discussion paper, except for specific items arising from our responses to the questions below, we believe that appropriate factors have been addressed in this discussion paper.

As the Board's consideration of 'the corridor' is addressed in this area of the discussion paper, we will use this opportunity to record our agreement with the removal of the corridor approach as this provides better consistency between reporting entities.

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

In our view service cost only should be included in profit and loss representing the increase in the present value of the obligation as a result of employee service in the reporting period. Segregating an expected return on scheme assets and actual return does not fairly represent the movement in the underlying assets. However, the purpose of pension scheme assets is to address a long term need to meet retirement obligations. To recognise short term movements on pension assets that will only be realised in the long term distorts the net income of an entity and, in our view, is misleading to the users of the financial statements. These movements should be accounted for in other comprehensive income.

Similarly the interest cost and movements in actuarial assumptions relate to liabilities that will be met in the long term. Neither the interest cost or the actuarial gains and losses are realised, and neither are part of operating performance. Therefore it is appropriate to record these in other comprehensive income.

We appreciate that our view does not conform to any of the 3 approaches described in the discussion paper. Of the 3 approaches described, Method 3 would be our preferred option.

However, it is noted that Method 3 requires the introduction of a methodology to be used to estimate interest income on plan assets. This appears to complicate the accounting treatment and provide an opportunity for more judgement in managing the charge to profit and loss.

(b) 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?*

Given the focus on pension liabilities we believe that it is very important to provide the user with sufficient understanding of the net liability recorded in the accounts and therefore disclosures should be provided in respect of defined benefit schemes to reconcile the opening balance sheet position to the closing position and to show the user which Income Statement and other comprehensive income lines have been impacted by pension scheme movements. We do not see any benefit in providing more detail in the primary statements. The analysis currently provided under IAS 19 is adequate, in our opinion, to meet the needs of users.

We do not agree that further analysis by scheme would be useful to the user and believe that this would be a hindrance to understandability.

(c) What would be the difficulties in applying each of the presentation approaches?

Please see our comments made above.

Question 4
(a) How could the Board improve the approaches discussed in this paper to provide more useful information to users of financial statements?
(b) Please explain any alternative approach to presentation that provides more useful information to users of financial statements. In what way does your approach provide more useful information to users of financial statements?

Generally we are content with the current requirements in respect of pension scheme accounting as set out in IAS 19 although we would prefer to show all movements except for current service cost in other comprehensive income as described above.

Question 5
Do you agree that the Board has identified the appropriate promises to be addressed in the scope of this project? If not, which promises should be included or excluded from the scope of the project, and why?

It would be useful to clarify that a promise to refund contributions when a member leaves the scheme within a specified period after joining, irrespective of the performance of the underlying assets, is not considered to be a qualifying contribution based promise.

Question 6
Would many promises be reclassified from defined benefit to contribution-based under the Board's proposals? What are the practical difficulties, if any, facing entities affected by these proposals?

Our defined benefit post retirement schemes have single promises associated with them and therefore should not be impacted by the proposals in this paper to treat promises individually.

Question 7
Do the proposals achieve that goal? If not, why not?

The proposals do appear to achieve the stated goal.

Question 8
Do you have any comments on those preliminary views? If so, what are they?

We agree with PV9, PV10 and PV11 and note that this will not have any impact on our current accounting. We would suggest that liabilities in respect of unvested contribution-based promises should be discounted.

Question 9
(a) Are there alternative measurement approaches that better meet the measurement objectives described in this paper? Please describe the approaches and explain how they better meet the measurement objectives.
(b) To what extent should the effect of risk be included as a component of the measurement approach at this stage of the Board's post-employment benefit promises project? How should this be done?

In the absence of a readily available and verifiable market based value, fair value based on discounted cash flows appears to be an appropriate method to use. However, we believe that it is inappropriate to reflect an entity's credit risk in the calculation of the liability.

Question 10
(a) Do you agree that the liability for benefits in the payout and deferment phases should be measured in the same way as they are in the accumulation phase? If not, why?
(b) What are the practical difficulties, if any, of measuring the liability for a contribution-based promise during the payout phase at fair value assuming the terms of the benefit promise do not change?

We agree that the calculation of the liability during the payout and deferment phases should be consistent with that applied during the accumulation phase.

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

The level of disaggregation of information useful to users depends on the accounting treatment of the contribution based promises. If the accounting treatment is consistent with that for defined benefit schemes then the level of disaggregation should also be consistent. If the two treatments are different then interest cost should be disaggregated to be consistent with the treatment of many other provisions.

Question 12
Should changes in the liability for contribution-based promises:
(a) be presented in profit or loss, along with all changes in the value of any plan assets; or
(b) mirror the presentation of changes in the liability for defined benefit promises (see Chapter 3)?
Why?

The treatment of contribution-based promises should be consistent with that of defined benefit promises. While some contribution based promises are straightforward if the accounting treatment for contributory promises differs from that of defined benefit schemes companies may seek to develop arrangements which become more complex to replicate some of the characteristics of a benefit promise within a contributory promise environment.

Question 13

(a) What are the practical difficulties, if any, in identifying and measuring the 'higher of' option that an entity recognises separately from a host defined benefit promise?
(b) Do you have any other comments on the proposals for benefit promises with a 'higher of' option? If so, what are they?

As this is not expected to directly affect us we have not considered this question in any detail.

Question 14

What disclosures should the Board consider as part of that review?

The Board intends to review the disclosures required about post-employment benefit promises in a later stage of this project. As part of that review, the Board intends to consider best practice disclosures in various jurisdictions. For example, explicit requirements to disclose information about the mortality rates used to measure post-employment benefit liabilities could be introduced to allow users to understand the inherent uncertainties affecting the measurement of those liabilities.

In our view a review of the disclosures surrounding post-employment benefit promises should focus on providing analysis of the impact of those promises on each line of the primary financial statements and the key judgements applied in the valuation of the post retirement obligation liability.

Please contact Paul Kemp at paul.kemp@cobham.com or Stephen Morris at stephen.morris@cobham.com if you need any further clarification in respect of these comments.

Yours faithfully,

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Group Director of Financial Control

Stephen Morris ACA, MSc (Econ)
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