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International Accounting Standards Board 30 Cannon Street LONDON EC4M 6XH



LETTER OF COMMENT NO. 132

Dear Sir/Madam,

Re: Discussion paper - Preliminary Views on Financial Statement Presentation

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

We are supportive of the IASBs aim of improving the presentation of financial statements and agree with the proposals at a high level. Rather than providing detailed responses to the questions as set out in the paper we have summarised our key concerns below:

1. Cash flow statement to be presented using direct method (questions 19 and 20)

We, along with our industry peers, currently present our cash flow statement using the indirect method as permitted by IAS7. This format also forms the basis for internal management reporting of cash flows where it provides a direct link between profitability and cash generation. This format is accepted by the users of our financial statements (who we consider to include investors, analysts, suppliers and customers), and we are not aware of any requests to represent the cash flow statement using the direct method.

We do understand the arguments as presented in the discussion paper that the direct method of presentation could more easily be aligned with the objectives of the financial statements, however we believe that the costs involved in collecting the data to achieve this would outweigh the benefits to what we perceive to be a small number of users who would find information presented in this format more useful than the existing presentation.

From a group perspective, to introduce a cash flow statement based on the direct method would initially require additional work by the central finance team in defining and designing data capture requirements. On an ongoing basis, additional resource would need to be allocated to verifying and analysing the data from our business units, and to reconciling to the information currently collected and as provided to management. The Group operates through over 40 cash generating units, only a few of whom share common accounting & reporting systems. Thus the effort required to embed the data requirements into the systems of each of our businesses would also be significant. Staff at all levels would also require additional training in both preparing and interpreting this information. Finally we foresee additional costs from our external auditors in validating systems and processes and in agreeing the revised presentation. We believe that these additional costs would be incurred by the majority of organisations, large and small alike who currently use the indirect method to report their cash flows under IAS7, and that these costs



would by far outweigh the benefits achieved by the smaller number of users who call for information prepared under the direct method.

2. Schedule to reconcile cash flow to comprehensive income (question 23)

We understand, from a purely theoretical perspective, how the proposed reconciliation schedule might be seen as a valuable tool to aid understanding of the financial statements. However from a practical perspective this appears to provide far too much information to be of use to many users. The example schedules as included in the discussion paper are rather long and would present some practical challenges if this were to be included in the published financial statements of a business! We believe that the level of disaggregation proposed is excessive as this provides almost as much information as would be found in a detailed trial balance. We would propose that additional information and reconciliations for specific items only could be provided as considered necessary by management. This would follow existing practice concerning the reconciliation of net cash to net debt and yet would address the perceived need of users for additional information.

3. Fundamental changes to the presentation of the financial statements

We believe that the proposed changes, when taken as a whole present too radical a change to the layout of financial statements to be acceptable to and understood by the majority of the users of our financial statements. For example, the proposed new layout of the statement of position is considerably different to the format as currently used (presented by Cobham and many others as a Balance Sheet) and, as with the cash flow would require deep-reaching system changes. These would be costly to implement with little perceived value from the preparer's perspective.

The discussion paper appears to focus too much upon the academic perspective and on providing information to users which is useful is assessing the future cash flows of an entity. The financial statements need to present a balanced view which achieves all three of the stated objectives in a clear and concise manner. We believe that some of the detail proposed to be included in the primary statements would be better presented in the notes so as not to obscure the overall message of the results. To avoid the need for further reconciliations to be required from 'old' to 'new', a longer term programme of educating the wider community of users of financial statements would be needed if these proposals are concluded in their current form.

Please contact Cathy Steger-Lewis or Paul Kemp if you need any further clarification in respect of these comments.

Yours faithfully,

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