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Peter Godsall
ACCOUNTING STANDARDS BOARD
5th Floor, Aldwych House
71-91 Aldwych
London
WC2B 4HN

Dear Sir,

Re: Policy proposal – *The future of UK GAAP*

We welcome the invitation to comment on this policy proposal 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 have a number of UK subsidiary companies, which are 100% owned, that currently report under UK GAAP. As a UK listed entity, the Cobham Group financial statements are reported under IFRS as adopted by the EU.

Rather than address each question in turn we have some general comments on the proposal.

Under the policy proposal our UK subsidiaries would be eligible to adopt IFRS SMEs. However, efficiencies would not be achieved by using a GAAP which is different to the GAAP used for the Group accounts. Therefore to adopt IFRS SMEs would be a costly and time consuming exercise to effectively replace one set of adjustments between IFRS and UK GAAP with a different set of adjustments between IFRS and IFRS SMEs.

We are also concerned about some specific differences between UK GAAP and IFRS SMEs. For example, the option not to apply FRS 26 and the package of other IFRS aligned standards is currently very advantageous and its removal may require numerous intercompany transactions surrounding Group Treasury to be accounted for at fair value with little benefit to the user. Accounting for taxation under IFRS SMEs captures many of the proposals included in the Exposure Draft – Income Tax, which have recently been abandoned for the immediate future. The differences between the full IFRS and IFRS SME requirements are significant and would result in additional cost in maintaining two sets of tax numbers. This also highlights the practical difficulties in periodic updating of IFRS SMEs, which could easily result in divergence between the two IFRS GAAPs.

We recognise the option to adopt full IFRS for our UK subsidiaries but the level of disclosure required is a significant disincentive and would again result in additional cost and effort. We understand that the option of allowing the use of full IFRS with reduced disclosures and possibly some exemptions was considered by the Board but not pursued further into the proposal paper. We believe that this would be a better solution for large groups with a significant number of subsidiaries and we would encourage the Board to consider this option further. Exemptions could include the relevant paragraphs in IAS 32 and IAS 39 on a similar basis to that currently allowed by applying paragraphs 15 – 50 of FRS 25. As our subsidiaries are all 100% owned, many external users focus on the Group accounts rather than those of each individual entity and therefore little benefit would be achieved by more extensive disclosure.

We also hold a number of companies in our portfolio that are dormant. It is possible that some of these companies may be impacted by the adoption of IFRS which may create adjustments in the year of transition. This would result in additional work and additional administration cost.

The tax implications of these proposed changes are currently unclear and could have a significant impact on businesses required to change their accounting policies. This should be clarified before a proposal is finalised. Additionally the new HMRC requirement to provide accounts using iXBRL will create an additional layer of cost and effort on transition to a new GAAP. We would ask the Board to bear these issues in mind when considering the implementation timetable.

Please contact Stephen Morris or Paul Kemp if you need any further clarification in respect of these comments.

Yours faithfully,

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