ConocoPhillips (U.K.) Limited
Rubislaw House
Anderson Drive
Aberdeen AB15 6FZ
Tel: 01224 205000
Fax: 01224 205222

Peter Godsall
Accounting Standards Board
5th Floor, Aldwych House
71-91 Aldwych
London
WC2B 4HN

By post and by email

16 December 2009

Dear Sir,

Policy Proposal : The Future of UKGAAP

This letter contains our comments on the ASB's request for responses to the Policy Proposal : The Future of UKGAAP.

Background to ConocoPhillips

ConocoPhillips is an international, integrated energy company, listed on the New York Stock Exchange (NYSE:COP). It is the third-largest US integrated Energy Company, based on both market capitalisation and oil and natural gas proved reserves and production, and the second-largest refiner. Headquartered in Houston, Texas, ConocoPhillips operates in more than 30 countries, which includes a significant presence in the United Kingdom.

We appreciate the opportunity to express our views on the Board's proposals.

Our comments on the policy proposal are predominantly written from the perspective of our requirement to prepare and file statutory financial statements in the United Kingdom.

Legal structure of ConocoPhillips in the United Kingdom

To place our comments on the policy proposal into context, we believe it is appropriate for us to explain the legal structure of ConocoPhillips in the United Kingdom.

ConocoPhillips, a US registered entity, is the ultimate parent company of all the UK legal entities. All our consolidated UK subsidiaries are wholly owned within the worldwide group. ConocoPhillips primarily manages its global operations on a geographical and segmental basis.

The organisation has approximately 55 legal entities, registered in the UK and Ireland, each preparing individual statutory financial statements on an annual basis. In addition, ConocoPhillips prepares and files two consolidated sets of UK financial statements. All our UK legal entities currently prepare their statutory financial statements in accordance with UK company law and accounting standards.

The UK statutory financial statements are prepared in addition to SEC reporting requirements.

Overall view on the proposals

We support many of the Board's proposals in respect of the future of UKGAAP and the proposed implementation of IFRS reporting in the UK.

Our response addresses specific concerns and issues in relation to the adoption of IFRS within our UK statutory financial statements. We believe our concerns align with the Board's proposals to improve financial reporting by adopting more proportionate reporting requirements.

We would strongly encourage the Board to consult further on the reporting requirements of foreign owned unlisted subsidiaries, required to prepare and file financial statements in the UK. In particular where the entity may be deemed accountable to the public by definition of its size and required to prepare their financial statements under full EU endorsed IFRS, we would urge the Board to further consider the option of reduced disclosure under both full EU endorsed IFRS and IFRS for SMEs.

As a US owned group, we would appreciate further consideration by the Board regarding the implementation timeline of IFRS reporting in the US. We believe that we can achieve significant efficiencies in aligning the conversion to IFRS reporting within our organisation.

Following recent announcements by HM Revenue and Customs (HMRC) and Companies House, we believe that it would be advantageous for the Board to consider further the implications of the introduction of XBRL in line with the proposed UK reporting framework. The introduction of XBRL will create an additional compliance burden on UK preparers within the same timeframe.

We have addressed these concerns within our detailed commentary relating to the specific questions raised within the consultation paper.

Our responses to the specific questions raised by the proposals are as follows:

1. **Which definition of Public Accountability do you prefer: the Board's proposal or the current legal definitions?**

   We fully support the Board's proposed definition of Publicly Accountable entities. Under the Board's proposal, this would enable all our legal entities to prepare UK statutory financial statements under IFRS for SMEs.

   We understand that full EU endorsed IFRS focuses on the requirements of listed companies and analysts and therefore forces onerous and lengthy disclosures. If the legal definitions were to be adopted, this will significantly increase the burden of preparation of statutory financial statements under full EU endorsed IFRS, as the majority of our entities would be deemed to be publicly accountable based on size.

   In our opinion, size should not be the only consideration given when assessing accountability to the public. We question whether the wholly-owned subsidiaries of a US listed parent can be deemed publicly accountable in the UK. In our view, the large volume of additional disclosures required for each stand alone legal entity would be disproportionate to any public accountability benefit.

   In order to satisfy our filing obligations in the UK, the financial data is prepared under UKGAAP for each legal entity. Under our current reporting framework, we believe that the users of our financial statements are satisfied with the level of disclosure produced. Application of full EU endorsed IFRS for the UK entities will result in unnecessary additional disclosure for multiple subsidiaries and therefore we believe conflicts with the Board's objective of providing a less complex financial reporting framework and providing relevant and understandable financial information.

2. **Do you agree that all entities that are publicly accountable should be included in Tier 1?**

   Overall, we support the Board's proposal that publicly accountable entities should be included in Tier 1.

   In our opinion, the Board's definition of public accountability is key. We re-emphasise that we do not believe that public accountability can be determined by size alone.

3. **Do you agree with the Board's proposal that wholly-owned subsidiaries that are publicly accountable should apply EU adopted IFRS?**

We believe that, in order to best meet the Board's objective of achieving a balance between less complex financial reporting requirements and providing relevant financial information to users, there should be some dispensation for wholly-owned subsidiaries, deemed to be publicly accountable, from applying full EU endorsed IFRS.

Where a publicly accountable entity is wholly owned and included in a consolidated set of financial statements, it may be more appropriate for these entities to be excluded from Tier 1, and the associated requirement to apply full EU endorsed IFRS.

4. **Do you still consider that wholly-owned subsidiaries that are publicly accountable should be allowed reduced disclosure?**

Each one of our UK subsidiaries takes advantage of some of the disclosure exemptions available under current UKGAAP. If our UK entities were deemed publicly accountable (based on size alone) and required to adopt full EU endorsed IFRS, we believe that the preparation of the onerous disclosure requirements would require a significant investment in time and additional resource.

As mentioned previously, ConocoPhillips manages its global operations on a geographical and segmental basis. The provision of certain disclosures (for example, related party transactions within the group, where the level of transactions between group companies is significant) is unlikely to be of significant interest to users of the financial statements.

We also highlight to you that our UK entities currently also take advantage of the exemption from cash flow statements and segmental information.

Under our current reporting framework, we are not aware of dissatisfaction from the users of our financial statements regarding the reduced disclosure options for wholly-owned subsidiaries. We therefore identify no material benefit arising from the additional time and cost of preparing such disclosures.

The reduced disclosure exemptions available to wholly-owned subsidiaries are not mandatory. Where there is a business requirement for such disclosure, these options do not have to be exercised.

We would encourage the Board to further consult on this particular question. It is our opinion that reduced disclosure options should only be made available to wholly owned subsidiaries whose results are included in published consolidated financial statements, which is in line with current UK reporting requirements.

5. **Do you agree with the Board's proposal that the IFRS for SMEs should be used by Tier 2 entities?**

We support the Board's proposal that the IFRS for SMEs could be adopted by Tier 2 entities. We understand that the requirements of the standard are less onerous than full EU endorsed IFRS and would best meet the reporting requirements of our organisation's unlisted entities.

6. **Do you agree with the Board's proposal that the IFRS for SMEs should be adopted wholesale and not amended?**

We can appreciate the benefits of adopting IFRS for SMEs wholesale, as this will enable the Board to devote additional resource to the future development of IFRS.

However, we need to be comfortable that the standard aligns with UK legislation and we believe that the Board will be required to monitor and provide guidance in such areas.

6. **Do you agree with the Board's proposal that the IFRS for SMEs should be adopted wholesale and not amended? (continued)**

Following our comments regarding reduced disclosure above, we would strongly encourage the Board to consult further around reduced disclosure for foreign wholly owned UK subsidiaries in order to ease the preparation of local statutory financial statements and ensure that the users of financial statements are obtaining the most appropriate level of financial information.

7. **Do you agree with the Board's proposal that large Non-Publicly Accountable Entities should be permitted to adopt IFRS for SMEs?**

We support the Board's proposal to permit large non-publicly accountable entities to adopt IFRS for SME's. We believe that this will largely contribute to the Board's objective of providing relevant financial information to users.

By enabling large non-publicly accountable entities to adopt the IFRS for SMEs, the option to voluntarily adopt full IFRS would be available if required.

Under the Board's proposals, our UK subsidiaries would be permitted to adopt IFRS for SMEs in our UK statutory reporting. We believe that this would best suit the requirements of the users of our financial statements.

As we have alluded to in our earlier commentary, we do raise concern regarding the additional disclosure requirements relating to cash flow statements and related party transactions, from both the preparer and users perspective, and would encourage the Board to consult further on this area.

8. **Do you agree with the Board that the FRSSE should remain in force for the foreseeable future?**

The FRSSE has not previously been adopted in any of our UK financial statements.

We agree with the Board that the FRSSE should remain in force for the foreseeable future as we believe that the option to adopt this standard can help achieve the balance between reducing the burden of preparing financial statements and providing useful financial information.

9. **Do you agree that the FRSSE could be replaced by the IFRS for SMEs after an appropriate transition period?**

We agree with the Board's view that if the FRSSE was to be replaced, this should be considered after an appropriate transition period.

We would however question whether the IFRS for SME standard is appropriate for a small entity, resulting in the same level of disclosure as a large non-publicly accountable entity. We question whether the additional resources and costs are manageable for small companies.

10. **Do you agree with the Board's current views on the future role of SORPs?**

Some of our UK entities have the requirement to apply the Standard of Recommended Practice relating to Accounting for Oil and Gas exploration, development, production and decommissioning activities.

We fully support the Board's views in respect to the future role of SORPs. In the absence of any new standards, we agree that the SORPs should remain in place until IASB initiatives are progressed, provided that the current SORPs are not in conflict with any of the principles in the International standards.

11. Do you agree with the proposal to develop a public benefit entity standard as part of its plans for the future of UKGAAP?

We have no comment in respect of the development of a public benefit entity standard and therefore have not addressed questions 11 – 14 relating specifically to the Board's proposals.

15. If you are an entity whose basis of preparing financial statements will change under these proposals, what are the likely effects of applying those new requirements?

It is appropriate to emphasise that the basis of preparation of our UK statutory financial statements would differ according to the definition adopted for publicly accountable entities.

If the Board's proposed definition is adopted, all our UK legal entities would be permitted to adopt the IFRS for SMEs. However, if the legal definition is adopted, our subsidiaries financial statements would be prepared under full EU endorsed IFRS.

Where our entities adopt IFRS, whether IFRS for SMEs or full EU endorsed IFRS, we would expect additional costs of compliance in relation, but not limited, to system conversion and configuration, revisions to policies and procedures, first year reporting, building expertise of our resources and additional audit fees. We also anticipate additional staff resources will be required to ensure that all our entities can meet the legal filing requirements. We anticipate that adopting full IFRS will have similar but significantly higher cost associated with its implementation than IFRS for SMEs. In our opinion, the significant costs associated with the implementation of full IFRS outweigh any associated benefit for our organisation and the users of the relevant stand-alone financial statements.

We raise concern in our response to Question 16, below, in relation to the Board's timeline and the proposed adoption of IFRS in the US. We believe that our related costs of compliance and other requirements would be minimised by alignment of these projects. It would allow our organisation to deliver consistent accounting policies and procedures, internal guidance, system enhancements and training in order to satisfy the reporting requirements in both jurisdictions.

We expect that it would be more advantageous to our organisation to align with the implementation of IFRS with the US, particularly if our UK subsidiaries may be required to adopt full IFRS. As we have alluded to in earlier commentary, our financial results are prepared for reporting purposes under US accounting policies which are consolidated with the rest of the global organisation. All policies and procedures relating to the global organisation are dictated to us by our ultimate controlling party. To satisfy our UK reporting requirements, our results are converted and aligned to a UKGAAP equivalent. We see this as less of a burden where our subsidiaries could adopt IFRS for SMEs.

With significant uncertainty around the implementation of IFRS in the US, coupled with the current economic climate, we understand that most US preparers are unlikely to commit significant resources to IFRS prior to a decision being made by the SEC. We acknowledge that this should not impair the ASB's objective of improving financial reporting in the UK. However, we believe that our concerns relating to the implementation of IFRS in the US are common across groups similar to ours and would encourage further consideration by the Board.

16. What are your views on the proposed adoption dates?

We feel that the proposed adoption date for financial years beginning on or after 1 January 2012 is somewhat ambitious and raise our concern with the timeline for implementation of IFRS reporting in the UK, particularly where our UK organisation adopts a form of IFRS ahead of its US controlling party.

We are aware of the discussions in relation to the adoption of IFRS reporting in the US and we understand that the SEC will conclude in 2011, with a view to adopt IFRS at the earliest in 2016. By aligning the dates for implementation, we can see a number of benefits in terms of the most efficient use of resources, including synergies across our global business units. We recognise that this is an issue our UK legal entities may have to deal with in advance of our US organisation, but stress that we need to be able to do so in the most effective and efficient method for our organisation.

16. What are your views on the proposed adoption dates? (continued)

We raise our concern in line with the HMRC and Companies House announcements regarding online filing of statutory financial statements (iXBRL) and the proposed implementation timeline. We have not yet concluded on the impact of iXBRL on our UK financial statements, but would request that these additional requirements are also taken into consideration when addressing the timeline for implementation in attempt to minimise the impact of change to UK financial reporting.

We trust that you will give our comments due consideration.

If you have any questions or require clarification on any of the issues raised in our response, please contact Sarah Budge (01224 205637, sarah.budge@conocophillips.com).

Yours faithfully

Robert Anderson
Finance Director
ConocoPhillips (U.K.) Limited