



29 January 2010

Peter Godsall  
Accounting Standards Board  
5<sup>th</sup> Floor, Aldwych House  
71-91 Aldwych  
London  
WC2B 4HN  
United Kingdom

Dear Mr. Godsall,

**ASB Consultation Paper *The Future of UK GAAP***

BP p.l.c. appreciates the opportunity to comment on the ASB's Consultation Paper *Policy Proposal: The Future of UK GAAP* (the CP).

We are supportive of the ASB's initiative of reflecting on the future of UK GAAP and believe that the timing of this is appropriate, now that UK listed companies have some five years of experience of using full IFRS, and IFRS for SMEs has been published. We are in broad agreement with most aspects of the CP, but we do have some concerns. Our main concerns are the following:

- Neither of the options proposed for Tier 2 entities represents the optimum solution for wholly-owned subsidiaries of Tier 1 groups. Use of IFRS for SMEs will result in a continuous burden of reconciliation between the full IFRS used for the group financial statements and IFRS for SMEs used for the subsidiaries' own accounts. The option of using full IFRS brings with it the obligation to provide certain elements of the financial statements and disclosures which are onerous to prepare and not relevant to the users' needs. Both of these entail unnecessary effort and expense, both for the entity and for its auditors. We therefore encourage the Board to permit the use of full IFRS with reduced disclosure for the financial statements of wholly owned subsidiaries of Tier 1 groups, along the lines of the exemptions currently allowed under UK GAAP.
- The timing of the transition may be difficult to achieve for many smaller entities with limited accounting and systems resources. We would encourage the Board to put back the date of mandatory change by one year (that is, to 1

January 2013) but to allow entities to adopt the new regime in 2012 on a voluntary basis.

Responses to the specific questions posed in the CP are set out in the appendix to this letter.

If you wish to discuss any of our comments further, please do not hesitate to contact me or Kirsty Howe.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Roger Harrington', with a stylized flourish at the end.

**Roger Harrington**

Vice President and Chief Accounting Officer

## Appendix

### COMMENTS ON THE ACCOUNTING STANDARD BOARD (the Board) CONSULTATION PAPER *POLICY PROPOSAL: THE FUTURE OF UK GAAP*

**Note:** For simplicity, in our responses we refer to EU-adopted IFRS as 'full IFRS'.

**Question 1.** *Which definition of Public Accountability do you prefer: the Board's proposal (paragraph 2.3) or the current legal definition (paragraph 2.5)? Please state the reasons for your preference. If you do not agree with either definition, please explain why not and what your proposed alternative would be?*

We prefer the Board's proposal as laid out in paragraph 2.3 since we believe that this more accurately reflects the range of potential stakeholders and users of financial statements whose interest and needs are best served by full IFRS. This definition has the merit of being clear, almost identical to the equivalent definition in IFRS for SMEs and avoids the ambiguity about the status of large entities that is mentioned in paragraph 2.5 of the CP.

In addition, we believe that this definition would remove the potential obligation of producing financial statements under full IFRS from entities deemed publicly accountable as a result of their being tainted under the current legal definition by being a member of an ineligible group. We think that it is unnecessary and onerous for such an entity to prepare full IFRS financial statements if it is not a publicly accountable entity itself. Its inclusion in the consolidated financial statements of the publicly accountable group is, we believe, sufficient.

**Question 2.** *Do you agree that all entities that are publicly accountable should be included in Tier 1? If not, why?*

We agree. We believe that stakeholders of publicly accountable entities require a consistent level of reporting and disclosure, whatever the size of the entity.

**Question 3.** *Do you agree with the Board's proposal that wholly-owned subsidiaries that are publicly accountable should apply EU-adopted IFRS? If not, why?*

Yes, we agree. We note that the stakeholders in subsidiaries which are used to raise finance for a group generally require financial statements to be prepared using the highest level of GAAP applicable in the relevant jurisdiction as one of the conditions of the financing provided. We agree with this requirement as it provides the stakeholder with the best information relevant to its stake.

**Question 4.** *Do you still consider that wholly-owned subsidiaries that are publicly accountable should be allowed reduced disclosure? If so, it would be helpful if you could highlight such disclosure reduction as well as explaining the rationale for these reductions.*

No, we believe that there should be one common accounting framework for all publicly accountable entities. In our view, this is the only way to ensure that the stakeholders obtain the transparency of information that they require to assess the performance and security of their investment.

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

No. Whilst we agree that IFRS for SMEs should be the requirement for the financial statements for Tier 2 entities in general and we agree that Tier 2 entities should have the option to adopt a higher tier of accounting regime, we believe, however, that there should be an option for Tier 2 entities to adopt full IFRS with a reduced level of disclosures [if they satisfy certain conditions]. We believe that the important criteria to apply to this question are the use which will be made of the financial statements and the needs of the relevant user, and based on this, to ensure that the requirements will result in sufficient and appropriate information being provided to the user. We believe that this is in line with the Board's aim, as stated in paragraphs 1.6 and 1.7 of the CP, of tailoring the financial statements to the needs of the user consistent with the level of public accountability that a company has.

We are particularly concerned about the mandatory adoption of IFRS for SMEs by wholly owned subsidiaries of Tier 1 groups. This will effectively lead to the requirement of a parallel set of books having to be kept for all such UK subsidiaries, owing to some fundamental differences that exist between the recognition and measurement principles for several items under full IFRS and those under IFRS for SMEs (e.g. intangible assets, goodwill, borrowing costs, etc.). Maintaining two sets of accounting records and proving the differences between them by reconciliation is a very time-consuming exercise. In common with many UK listed companies reporting consolidated financial statements under full IFRS, BP has had to perform these tasks in respect of its UK subsidiaries over the past five years. We have found this to be very onerous and therefore aspire to be able to prepare all financial statements for the group and its UK subsidiaries under one accounting framework – full IFRS.

However, full IFRS currently has a number of extremely onerous requirements for presentation and disclosure that we believe have no relevance to the user of wholly owned subsidiaries' stand-alone financial statements, and hence we think the Board should consider the need to remove these. As an illustration of the increased burden that is generated by full IFRS, take the example of the expansion in size of the notes to the financial statements that occurred when the BP group implemented full IFRS for its consolidated financial statements. Under UK GAAP the notes were 42 pages in length; under IFRS these expanded to 76 pages (excluding one-off first-time adoption disclosures), an increase of 80% percent.

One area where full IFRS would be onerous for subsidiaries is that of the disclosure of related-party transactions. Under full IFRS as it stands currently, it will no longer be possible to claim any exemptions for related party transactions with other wholly owned subsidiaries in the Group, thus creating a substantial issue of data collection and presentation. BP has far in excess of 1000 entities operating around the globe in many

jurisdictions, which transact significantly on a daily basis with each other in a variety of manners (e.g. intra-group funding arrangements, provision of specialist services/personnel or purchasing/selling products prior to their reaching the market). The amounts of these are, of course, captured for the purpose of elimination within the group consolidation using an appropriate level of materiality, but to quantify these for an individual subsidiary at an appropriate level of materiality and to provide the full set of disclosures required by IAS 24 would take an inordinate amount of time, cost and effort for what we consider to be of very limited benefit to the potential user.

The requirement for individual cash flow statements and the increased requirements around financial instruments are other areas of note that would provide additional burden with only limited benefit.

Furthermore, given that these subsidiaries will have been defined as not publicly accountable and hence as Tier 2 entities, we believe that on many occasions the main or only users of the financial statements will be the shareholders themselves, who are likely to be one or more 100% Group owned subsidiaries, whose use for this information will be very limited. We think that creditors tend to be more interested in parent-company guarantees than full financial statements. The costs of providing this additional information and the attendant costs of audit could be substantial compared with the current situation and, in our view, are unlikely to be justified.

We recognise that the adoption of the option of full IFRS with reduced disclosure requirements would require the ASB or an equivalent body to monitor developments in full IFRS in order to ensure that wholly owned subsidiaries are relieved of those new requirements which are not seen to be of use in the context of their financial statements. We think, however, that this represents overall a lesser burden than that placed on potentially thousands of companies by either the provision of financial statements under full IFRS or by the requirement to keep two sets of accounting records as described above. In our view, in carrying out this task of monitoring and filtering out unnecessary requirements, the ASB would provide a very valuable service to UK groups.

**Question 6.** *Do you agree with the Board's proposal that the IFRS for SMEs should be adopted wholesale and not amended? If not, why not? It would be helpful if you could provide specific examples of any amendments that should be made, as well as the reason for recommending these amendments.*

We agree that it would be preferable for the ASB not to tailor the IFRS for SME for UK and Irish application but to endorse it as it is. This would present the advantages of enhancing comparability with other entities in jurisdictions that have adopted IFRS for SMEs and to avoid the ASB's having to allocate scarce resources to maintaining an "IFRS for UK SMEs".

**Question 7.** *Do you agree with the Board's proposal that large Non-Publicly Accountable Entities should be permitted to adopt the IFRS for SMEs? Or do you agree that large entities should be required to use EU-adopted IFRS? Please give reasons for your view.*

We believe that the accounting regime should be appropriate for the use to which they will be put. We think that IFRS for SMEs is probably the minimum requirement that should be applied to large non-publicly accountable entities, but that the management should have the option of adopting full IFRS where, in its judgement, this better fulfils the requirements of the users of the financial statements.

Please see our response to question 5, in respect of large non-publicly accountable entities which are wholly owned subsidiaries of Tier 1 groups.

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

Yes, we think that the benefit of the existence of FRSSE to small companies is clear and substantial.

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

No. The FRSSE is widely used by small businesses and is specifically tailored to its users. We understand that such financial statements currently deliver what is required of them. On the basis of our experience of the effort involved in the implementation of full IFRS in the BP group, we think that transition to IFRS for SME's would result in increased cost and burden for these entities, both at transition and thereafter. In our view, there would have to be a clearly demonstrable and substantial advantage to making the transition to IFRS for SMEs before this should be imposed.

**Question 10.** *Do you agree with the Board's current views on the future role of SORPs? If not, why not?*

We agree with the Board's view on SORPs as expressed in paragraph 2.35 of the CP, that is, that the future of the majority of the SORPs is dependent upon the evolution of IFRS. However, in this context, it is not only the evolution of full IFRS which is relevant, but also that of IFRS for SMEs and their status in the UK accounting hierarchy. We find it difficult to conclude on whether the SORPs will have any validity at all for Tier 1 and Tier 2 entities once the Board's proposals have taken effect. Presumably, the only status they will have is that of examples of potential accounting policy where there is no relevant requirement under full IFRS or the IFRS for SMEs, as appropriate, with the proviso that the SORPs do not contradict any specific requirements or principles of IFRS. This may mean that in practice they will remain relevant only for Tier 3 entities.

**Question 11.** *Do you agree with the Board's proposal to develop a public benefit entity standard as part of its plans for the future of UK GAAP? If not, how should (converged) UK GAAP address public benefit entity issues?*

**Question 12.** *If you do agree with the proposal to develop a public benefit entity standard, should the standard cover all the requirements for preparing true and fair view accounts or should it cover only those issues where IFRS or the IFRS for SMEs needs to be supplemented for the public benefit entity sector?*

We have no experience of such entities and thus have no substantive comment other than the following.

We find this part of the CP confusing since the proposal is to develop a standard that requires public-benefit entities to follow "converged UK GAAP" other than for specific areas where additional requirements pertinent to these entities are necessary. However, our understanding of the main proposal of the CP is to eliminate UK GAAP for all but Tier 3 entities, and since there is no definite intention to converge FRSSE with IFRS, we do not know what "converged UK GAAP" would be in this case. Having said that, it seems logical to develop a standard for these entities, based on an established accounting regime but complemented by additional material focused on these entities.

**Question 13.** *Do you agree the issue listed in the above table are distinctive for the public benefit entity sector and should therefore be covered in a public benefit entity standard? What other issues might the proposed standard include?*

We have no comment.

**Question 14.** *The Board accepts there may be a continuing need for guidance to supplement a public benefit entity standard in sectors such as charities, housing and education. Where this is the case, do you think the Board should provide a Statement confirming the guidance is consistent with UK GAAP, including the public benefit entity standard?*

We have no comment other than that given in our response to Questions 11 and 12.

**Question 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? Please indicate both benefits and costs and other effects as appropriate. If you are a user of financial statements (such as an investor or creditor) what positive and negative effects do you anticipate from the implementation of the proposals set out in this paper?*

We think that the major benefit of a move away from UK GAAP towards IFRS is that all accounting for our UK incorporated subsidiaries' financial statements will be done on the same basis as the Group. As a result, time and effort will be saved in the production of financial statements for all those entities, as the reconciliation of the differences between the accounting bases will no longer be required, either for internal purposes or by our auditors. We expect this to produce cost savings.

In contrast, the cost to the group of adopting and maintaining either full IFRS (including all disclosures) or IFRS for SME's is difficult to quantify but probably substantial, as outlined in our response to Question 5. As noted in that response, the area which causes us most specific concern is the lack of disclosure exemptions of the sort that currently exist under UK GAAP.

We also note that corporation tax legislation continues to move further towards a basis which is closer to the accounting treatment. It would be unfortunate for companies if the Board's proposals resulted in any adverse step-change in taxation. We would therefore encourage the ASB to consider the potential tax impact of any changes to accounting standards it may be considering, and to ensure that the relevant taxation authorities are made aware of, and understand, any changes proposed by the Board.

**Q16.** *What are your views on the proposed adoption date?*

We think that the proposed adoption date allows very little time to prepare for the transition period.

The 'change' date of 1 January 2012 means that companies will have to provide comparative information for 2011. It is always easier to collect information 'in real time' from the beginning of the period concerned, that is, from 1 January 2011 under the proposals, than to go back and recreate it. However, in order to be in a position to gather such information, entities must have substantially completed their analysis of the differences between the current and future GAAP and have identified the data required. If any changes to systems or processes are required, it is better to have completed these in advance to facilitate the data-gathering effort. We think that such analysis and systems conversion work would require at least a year, or longer where small entities with limited accounting resources are involved. In our view therefore, to ensure a successful transition, entities needed to know the Board's final decision at the beginning of 2010, at the latest.

Given that the consultation period does not close until Feb 2010, we do not think that a decision can be reached, ratified and communicated in good time to allow companies to prepare for a successful transition on 1 January 2012.

We would therefore suggest that the mandatory adoption date be delayed by one year beyond the current proposal, at the least. For those companies which have adequate accounting and systems resources, earlier voluntary adoption should be permitted.