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Accounting Standards Board
5th Floor, Aldwych House
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By email: asbcommentletters@frc-asb.org.uk

Dear Sir or Madam,

ASB Revised Financial Reporting Exposure Drafts *The Future of Financial Reporting in the UK and Republic of Ireland*

We welcome the opportunity to comment on the ASB's Revised Financial Reporting Exposure Drafts: *The Future of Financial Reporting in the UK and Republic of Ireland* (the FREDs). I am pleased to respond on behalf of BP p.l.c. to the invitation to comment.

We continue to be supportive of the ASB's objective to enable users of accounts to receive high-quality, understandable financial reporting proportionate to the size and complexity of the entity and the users' information needs. In particular, we welcome the proposal to include the related party exemption in the reduced disclosures for qualifying subsidiaries.

Firstly we wish to acknowledge the progress that has been made in developing the FREDs and we appreciate how the ASB has listened to the feedback provided. We do have some remaining points on FRED 47 "Reduced Disclosure Framework" (draft FRS 101) and FRED 48 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (draft FRS 102) which we would like to highlight.

The ASB's proposals – both in respect of draft FRS 101 and draft FRS 102 – appear to represent compromises with the objective of working within the existing framework of company law applicable in the UK. In our view it would be preferable for the ASB to work with the Department of Business, Innovation and Skills (BIS) and other relevant parties with the objective of ensuring that company law and the Accounting Directives are updated to allow IFRS and IFRS for SMEs recognition and measurement criteria to be used in Companies' Act accounts. We believe that any resulting delay to the ASB's proposals would be worthwhile.

FRED 47 "Reduced Disclosure Framework" (draft FRS 101)

As a company listed in both the United Kingdom and the United States, BP p.l.c. currently prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and as endorsed by the European Union. However, the individual financial statements of the parent company and all of the UK subsidiaries (approximately 160) continue to be Companies Act accounts prepared in accordance with UK GAAP. In the future, our UK subsidiaries' financial statements would ideally be prepared in accordance with the



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recognition and measurement requirements of IFRS, with all assets and liabilities measured at the same amounts as for the consolidated group accounts, while taking advantage of the disclosure exemptions for qualifying subsidiaries. Achieving this end state would provide significant process simplification and cost benefits.

If we have correctly understood the contents of Application Guidance 1 and Appendix 1 of draft FRS 101 the issues noted below appear to put at risk our desired end state described above by potentially preventing the same amounts being used both for the consolidated group accounts and subsidiaries' individual financial statements.

It is our understanding that qualifying accounts prepared under draft FRS 101 would be Companies Act accounts; the consequence of this is that these subsidiary accounts must comply with Accounting Directives, and therefore be prepared under a modified version of EU-adopted IFRS. Table I provided in Appendix 1 of draft FRS 101 sets out the differences that may arise between EU-adopted IFRS and the modified, Accounting-Directives-compliant version. We are not troubled by those differences which are purely a matter of presentation, such as discontinued operations, but are, however, concerned about the differences that affect the measurement of items in the financial statements, such as the treatment of negative goodwill and the treatment of government grants. While we believe that these differences are not likely to occur frequently in many subsidiaries, it does mean that there will need to be a process of education and awareness to ensure that they are identified when they do arise, and a system of capturing and tracking those differences established. We will therefore potentially have switched from one set of UK GAAP vs. IFRS differences, to another set of differences between EU-adopted IFRS and the modified version, eroding a number of the perceived simplification and cost benefits of moving to IFRS. If retained, further guidance should be provided in this area, and updated as necessary in the future, rather than assuming preparers possess a detailed knowledge of the Accounting Directives and their interaction with IFRS.

In particular we have a concern relating to transition arrangements. On transition to IFRS, IFRS 1 paragraph D16 allows for a subsidiary that adopts IFRS later than its parent to measure its assets and liabilities at the carrying amounts included in the parent's consolidated financial statements, based on the parent's date of transition to IFRS. The ASB's proposal is to allow this option provided that the measurement of the assets and liabilities in the subsidiary's individual accounts comply with the Accounting Directives. Consistent with our comments above, we believe that this conditionality should be removed, allowing the group IFRS amounts to be used if a subsidiary is part of an IFRS group consolidation.

When an entity applies FRS 101 for the first time, it would ordinarily be required to apply the recognition and measurement requirements of IFRS fully retrospectively. However, we understand that the ASB's intention is that the exemptions from full retrospective application available in IFRS 1 should be available to entities applying FRS 101 for the first time. However, IFRS 1 can only be applied where there is an explicit and unreserved statement that the financial statements are in compliance with IFRS - and with the reduced disclosures permitted by FRS 101 we would not be able to make such a statement of compliance. Perhaps a simple extra sentence could be added to FRS 101 to state that the exemptions available to a first-time adopter of IFRS set out in IFRS 1 can also be used when applying FRS 101 for the first time.

FRED 48 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (draft FRS 102)

As discussed above, we believe we are more likely to apply FRS 101 in our UK subsidiaries' accounts than FRS 102. We do not, however, agree in principle with changing IFRS for SMEs for use in the UK. While we agree, for example, that there is scope for improvement

regarding the accounting for income taxes set out in IFRS for SMEs, we believe that the appropriate forum for making changes to IFRS for SMEs is through the IASB. If changes are being made to fit within the current UK legal framework, as stated above we suggest the ASB work with BIS to update the legal framework.

SORPs

The Board may wish to clarify whether SORPs are intended to apply to companies reporting under FRS 101. In our view companies opting to apply this standard, and using EU-adopted IFRS except in those areas where exemptions are offered, will not benefit from the additional complication that SORP compliance would entail. We therefore suggest that it be clarified that SORP-compliance is not required by companies applying FRS 101. This is particularly important as the SORPs will then be interpreting a wholly different GAAP, i.e. FRS 102.

Effective date

We agree with the proposed effective date of 1 January 2015, provided the draft FRSs are finalised by the end of 2012.

Maintenance of UK GAAP

We encourage the ASB to continue to maintain and update existing UK GAAP in the period until the new UK GAAP standards become effective to avoid new differences being created between IFRS and UK GAAP. For example, we understand that there are currently no proposals to align FRS 17 "Retirement benefits" with the latest amendments to IAS 19 "Employee benefits" which replace the expected return on plan assets with net finance income or expense based on the discount rate and the surplus or deficit in the plan, and which are effective from 1 January 2013. Unless aligned, this will create a new difference between the amounts reported in our IFRS consolidated financial statements and our UK GAAP parent company and subsidiary accounts.

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If you would like to discuss any of the comments in this letter, we would be happy to do so. Please do not hesitate to contact myself or Martin Perrie (martin.perrie@uk.bp.com).

Yours faithfully



Roger Harrington

