



Central Finance
Shell International Limited
Shell Centre
London SE1 7NA
Tel: +44 20 7934 5526
E-Mail: S.Constant-Glemas@shell.com
Internet: <http://www.shell.com>

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

Dear Colleagues:

The Future of Financial Reporting in the United Kingdom and Republic of Ireland

We are grateful for the opportunity to comment on the Financial Reporting Exposure Drafts (FREDs) 46, 47 and 48 that the Accounting Standards Board (ASB) issued in January 2012 setting out proposals for the future of financial reporting in the United Kingdom and Republic of Ireland.

As you will know from our response to your November 2010 proposals (FREDs 43 and 44), our interest in this project is primarily focused on the reporting by subsidiaries. We reproduce below (from our comment letter in April 2011 to those FREDs) the background to our views on this area of financial reporting:

- As a listed company, the consolidated financial statements of Royal Dutch Shell are of course prepared in accordance with EU-adopted International Financial Reporting Standards (IFRS). However, where permitted, we have retained local GAAP as the basis of the financial statements for the majority of our subsidiaries (UK FRS for all our UK subsidiaries), because of the burden that applying IFRS would entail - particularly for disclosures which we believe are inappropriate and unnecessary, and for which the cost of preparation cannot be justified.
- The extra cost of disclosures currently outweighs the benefits we would obtain from aligning accounting policies with IFRS throughout the group. Generally we consider any regulatory requirement to prepare financial statements for subsidiaries to be a compliance exercise and for the tax authorities, with very limited benefits for other users, and we seek to make the process (including audit) as efficient and cost-effective as possible.
- We were therefore amongst many stakeholders that urged the ASB to take the opportunity in its review to consider the special circumstances of subsidiaries' financial reporting, and are very grateful for the resources that the ASB put into developing proposals in this area; we were pleased to be involved in its consultation process prior to the publication of FREDs 43 and 44.
- We hope that the ASB's efforts will result in a requirement that will be acknowledged in other jurisdictions as a very important contribution to reducing an unnecessary burden of financial

reporting. It is understandable given its heavy agenda of the last few years, including the effort put into producing an IFRS for SMEs, that the International Accounting Standards Board (IASB) has been reluctant to consider such a project. However we would like to think that the IASB will be able to use the work of the ASB to develop an IFRS for subsidiaries that can be applied globally (subject to local law), when of course it will be of even more benefit to companies such as ourselves.

We therefore fully supported the ASB's proposals in FREDs 43 and 44 for a separate regime for subsidiaries of entities applying EU-adopted IFRS and welcome its inclusion in the latest FREDs. Placing the *Reduced Disclosure Framework* (RDF) into a separate self-contained accounting standard will provide clarity for preparers, therefore benefitting both the future implementation process and on-going reporting. We believe that the approach proposed by the ASB will clearly achieve the stated objective of promoting efficiency within groups, although we explain below those changes to the detail that we consider would further enhance the RDF.

We pointed out in our April 2011 response that it will be important to keep the list of disclosures exemptions current, and recommended that the ASB should have a process in place to review and update those requirements whenever the IASB makes a change in order not to dilute any of the benefits which the proposals will bring. We therefore welcome the inclusion in FRED 47 of principles for determining which disclosures should be reduced as new IFRSs are introduced, and the recognition that a key reason for the RDF being a separate standard is because it will require more regular updating than other parts of UK GAAP in the future.

We agree with the determination principles set out in FRED 47 (relevance, cost constraint and avoid gold plating) but it is not clear whether the resulting list of exemptions in each case going forward will be open to due process review with its stakeholders; we trust that this will be the case and that this will be clarified in the final standard. In fact, given that IFRSs 10-12 and a revised IAS 19 will be in place well before the proposed final effective date of the ASB's proposals, it may be beneficial to apply the process to these standards - both to demonstrate how it would operate and to incorporate the outcome in the final FRS 101.

We continue to recognise and support the effort undertaken by the ASB in this area and would welcome the opportunity to discuss any aspects of our response further with the ASB.

We have answered below those specific questions from the ASB which are relevant to our activities.

QUESTION 1

The ASB is setting out the proposals in this revised FRED following a prolonged period of consultation. The ASB considers that the proposals in FREDs 46 to FRED 48 achieve its project objective:

To enable users of accounts to receive high-quality, understandable financial reporting proportionate to the size and complexity of the entity and users' information needs.

Do you agree?

We agree that the principles behind the Reduced Disclosure Framework and much of the way in which they are put into practice as set out in FRED 47 will help achieve the ASB's objective in this area. We do however believe that there are certain areas – many of which we also set out in our April 2011 response - where changes to FRED 47 would enhance the proposals.

(a) List of exemptions

We welcomed and commended the ASB for including the reduced disclosure facility within its proposals for the future of UK GAAP. Whilst in FRED 47 the ASB has made certain amendments to its earlier list of disclosure exemptions, we continue to believe that there are additional exemptions which would enhance the proposals. We consider these changes would be in line with the determination principles that the ASB has developed for considering future disclosure exemptions; they would improve the practicability and ensure that the cost savings are as significant as possible without detriment to users.

We provided a list of additional exemptions in our April 2011 response and, taking into account the changes made by the ASB in drafting FRED 47, include these as the Appendix to this letter.

We appreciate the work carried out by the ASB to identify the changes necessary to EU-adopted IFRS in order that the financial statements of a qualifying subsidiary will continue to comply with UK and EU company law. We remain confused however by the amendment for company law purposes that the ASB state is required to paragraph 33 of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations when it has included part of this paragraph in the list of proposed exemptions. (We continue in the Appendix to ask the ASB to consider eliminating the concept of discontinued operations for qualifying entities.) It would be helpful if the final FRS 101 could include an appendix setting out the amendments that have been made to IFRS for company law purposes.

(b) Transition

It is unclear why the ASB appears to be restricting early adoption to periods beginning after the date of issue of the final standards rather than to periods ending on or after the date of issue. In this regard we would like to clarify the transitional reporting requirements. If FRS 101 is issued during 2013 and an entity (with a calendar year end) chooses to early adopt for 2014, would its transition date be January 1, 2014 with no retrospective adjustments for 2013 (because it is not allowed to adopt early) or would it be January 1, 2013?

We also have some concerns with IFRS 1.D16(a) and believe further guidance may be necessary in order to ensure consistent application, particularly in relation to the impact on distributable reserves and tax reporting, bearing in mind the large number of entities that will be using these transitional requirements.

(c) Exceptions to IFRS recognition and measurement

Whilst aligning the accounting policies with those applied under EU-adopted IFRS in the consolidated financial statements will generally provide the most benefit, there are areas where the ASB's proposals could either impose additional costs or not eliminate unnecessary costs. This is for items that may be managed on a shared basis (long-term employee defined benefit and share-based payment plans) where the accounting is complex. For defined benefit plans, simplified accounting is available under existing FRS for all subsidiaries. We also believe that the ASB should consider the same approach for share-based payments; currently the accounting (and the related disclosures) requires significant effort which we do not believe is justified on a relevance for users or a cost/benefit basis.

Therefore we would repeat the request in our April 2011 letter that, for qualifying entities:

- in respect of defined benefit pension plans, the ASB amend the final two sentences of paragraph IAS 19.34A in order that a sponsoring employer subsidiary can also apply the

contributions basis. The disclosures set out in paragraph IAS 19.34B would appropriately continue to apply to qualifying entities.

- in respect of share-based payments, the ASB consider whether amendments can be made to IFRS 2 in order to provide simplified accounting, for example only for amounts charged to a subsidiary. We note that the ASB is proposing to exempt qualifying subsidiaries from certain IFRS 2 disclosures.

(d) Extension to jointly controlled entities

In our April 2011 letter we asked the ASB to consider extending the reduced disclosure option to the accounts of jointly controlled entities, provided the consolidated financial statements for each shareholder in which the entity is included are publicly available, and subject to no objection from any shareholder. We can see no reason to impose additional disclosures in these situations compared with the requirement for subsidiaries.

(e) Applicability of the SORP “Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities”

The ASB’s proposals make it clear that this SORP will be updated in order to support FRED 48. We explained in our April 2011 letter why we felt it unnecessary and would add complexity to require SORPs (even on a “comply or explain” basis) to apply for the reduced disclosures option. We assume that, with the elimination of FRS 18, there will no longer be a general requirement in UK GAAP for entities that fall within the scope of a SORP to provide a “comply or explain” statement; in future it will be restricted to FRED 48. It would however be helpful if the ASB could clarify in the final standard (or in SORP literature) that SORPs do not apply to the RDF, to avoid any confusion as to whether any general overriding comply or explain requirement might be deemed to remain in place. This would not of course prevent a qualifying entity from applying a SORP voluntarily.

(f) IFRS 6 Exploration for and Evaluation of Mineral Resources

In our April 2011 letter we explained a specific issue in relation to IFRS 6. This standard requires an entity to apply paragraph 10 of IAS 8 to its accounting for exploration and evaluation assets. As a consequence, on transition to IFRS an entity would generally be required to continue with its existing policy in this area. To avoid an unnecessary conflict with the policies adopted by its listed parent, it is important that the Board provide a specific transitional option for a qualifying subsidiary to apply the same accounting policy as its parent for exploration and evaluation assets.

QUESTION 4

Do you agree with the definition of a financial institution? If not, please provide your reasons and suggest how the definition might be improved; and

We are not convinced that of users of retirement benefit plan financial statements have the same needs as users of other entities and accordingly we believe that the disclosure requirements should be different. An alternative to amending the definition of a financial institution would be to limit disclosures in retirement benefit plan financial statements to selected items only, i.e. those that are relevant for such plans and not already covered by the pensions SORP.

QUESTION 6

The ASB is requesting comment on the proposals for the financial statements of retirement benefit plans, including:

(a) Do you consider that the proposals provide sufficient guidance?

(b) Do you agree with the proposed disclosures about the liability to pay pension benefits?

We note that the ASB has decided not to extend the definition of public accountability. In particular in our April 2011 response we explained why we did not consider it is necessary for pension schemes and employee benefit trusts (and therefore their members) to be required to report in accordance with EU-adopted IFRS and therefore we welcome this change.

We note that it is now proposed that retirement benefit plans would apply FRED 48 (and an updated SORP). The proposed inclusion within the definition of a financial institution would give rise to specific disclosure requirements over and above those required by current UK GAAP, and it is not clear why this is considered necessary (see also our response to Question 4).

Pension scheme liabilities will continue to be excluded from financial statements, which is perhaps inconsistent with the additional risk disclosures for investments where there is in an interaction between assets that are intended to hedge liabilities, with the change in the value of those liabilities (which would need to be explained).

QUESTION 8

Do you agree with the effective date? If not, what alternative date would you prefer and why?

Whilst we support the proposed final effective date of January, 2015, we welcome the option to early adopt the new standards (once finalised). However we raise some transition issues in section (b) of our response to Question 1 above. As stated in our April 2011 response, should other aspects of the proposals require additional time to finalise, we would urge the ASB to not to delay the introduction of the RDF.

Yours faithfully,



Simon Constant-Glema
VP Corporate & UK Country Controller

Disclosure exemptions

DISCLOSURE EXEMPTIONS IN FRED 47	CHANGE TO ORIGINAL ASB PROPOSAL	COMMENT
IFRS 1 First-time Adoption of International Financial Reporting Standards: reference to IAS 1 in paragraph 21 may be ignored	New	Agree
*IFRS 2 Share based Payment: paragraphs 45(b) and 46-52 (except for a group arrangement involving equity instruments of an entity other than the parent)	45(b) is new	Agree and consider extending exemption to IFRS 2.44 and remainder of 2.45 but perhaps retain IFRS 2.50-51 if (as proposed in our letter) the accounting is changed to a "contributions basis"
*IFRS 3 Business Combinations: paragraphs: B64(d), (e), (g), (h), (j)-(m), (n)(ii), (o)(ii), (p), (q), B66 and B67 (for the acquisition of a group of assets that constitute a business)	B66 and extension to all of B67 is new	Agree and consider extending to IFRS 3.B65
*IFRS 5 IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: paragraph 33(b) and (c)	33(c) is new	Agree and consider extending to IFRS 5.30-40 (eliminate the concept of discontinued operations)
*IFRS 7 Financial Instruments: Disclosures' **	No change	Agree
*IFRS 13 Fair Value Measurement: paragraphs 91-99 **	New (IFRS 13 is new)	Agree
IAS 1 Presentation of Financial Statements: (a) paragraphs 10(d)&(f), 39(c) and 134-136 (b) paragraph 38 requirement to present comparative information in respect of: (i) IAS 16 Property, Plant and Equipment: paragraph 73(e); (ii) IAS 38 Intangible Assets: paragraph 118(e); (iii) IAS 40 Investment Property: paragraphs 76 and 79(d)	10(d)&(f) and 39(c) are new No change	Agree Agree and consider extending the exemption to all other "roll forward" tables of comparative information such as IAS 1.79(iv) Consider exemption for IAS 1.104-105 and 1. 122-133.
IAS 7 Statement of Cash Flows	No change	Agree
IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: paragraphs 30 and 31	No change	Agree

and 31		
IAS 16 Property, Plant and Equipment: paragraph 74(c)	New	Agree and consider extending to Asset class analysis requirement in IAS 16.73 (and in IAS 17.31(a), IAS 38.118 etc) and to IAS 16.74(b)
IAS 24 Related Party Disclosures: paragraph 17 and the disclosure of transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by a member of that group	Exemption for 19(b)(c) has been dropped	See Note (A) Below
*IAS 36 Impairment of Assets: paragraphs 134(d)-(f) and 135(c)-(e)	Extended to all of 134(d)-(f)	Agree and consider extending to IAS 36.134-137
IAS 38 Intangible Assets: paragraph 122(e)	New	Agree

**providing equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.*

***There are specific disclosure requirements in FRED 47 if any financial liabilities are nominated to be reported at fair value through profit and loss (which is not the case for any Shell subsidiaries).*

We note that the ASB no longer proposes to exempt the disclosure requirements of IAS 19 Employee Benefits: paragraphs 30(c)(i)-(ii), 120 and 120A. This change is in line with our April 2011 response – but linked to our request that the contributions basis of accounting (for defined benefit plans) should be used for all qualifying entities. However, should the ASB maintain the existing IAS 19 accounting requirement for the sponsoring employer subsidiary, it is important that there is exemption from paragraph 120 and 120A (under the standard proviso that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated).

We would question the apparent change to the original proposals in that there is no longer an exemption from the disclosures in paragraph 37 of IAS 28 Investments in Associates. In fact we had proposed extending the exemption to paragraph 40.

We had also proposed exemptions from the requirements of IAS 12 Income Taxes: paragraphs 81(c)-85, IAS 17 Leases: paragraphs 31(c)-(d) and 35(b)-(c) and IAS 31 Joint ventures: paragraphs 54-55.

Note: We welcome the ASB's decision to continue with the existing exemption (FRS 8 and company law) from related party disclosure requirements for transactions with wholly-owned subsidiaries of the same group. We share the ASB's concern that the European Commission is considering eliminating this exemption as part of a package of changes to the Accounting Directives.

However, in our April 2011 letter we urged the ASB to extend this exemption to transactions between all fellow subsidiaries of the same group (if necessary to be replaced with a requirement to disclose transactions between the companies which are not made on arm's length terms). As we pointed out, IAS 24 (or IFRS in general) does not differentiate between wholly-owned and other types of subsidiaries, nor do the other exemptions proposed by the ASB, and therefore we believe that it would be simpler, and would not be a concern for users, if the exemption is extended in this way.