Roger Harrington
Vice President & Chief Accounting Officer

BP p.l.c.
1 St. James's Square
London
SW1Y 4PD

Direct 01932 758701
Main 020 7496 4000
Fax 01932 738216
harrrc@bp.com
www.bp.com

31 August 2011

European Financial Reporting Advisory Group - EFRAG
35 Square de Meeûs
1000 Brussels
Belgium

By email: commentletters@efrag.org

Dear Sir or Madam,

Re: Invitation to Comment – Discussion Paper: Considering the Effects of Accounting Standards

We welcome the opportunity to comment on the ASB and EFRAG's Discussion Paper: Considering the Effects of Accounting Standards. I am pleased to respond on behalf of BP p.l.c. to the invitation to comment.

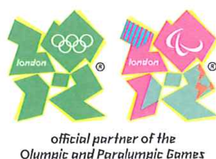
Overall, we support the idea that standard setters in general, and the IASB in particular, should consider the effects of accounting standards as part of the standard-setting process. We believe that the need to do this is clear but it seems to us that the paper and proposals could be simplified so that they can be more readily applied in practice. For example, we question the proposed requirement for a formal effects analysis document to be produced at five specific stages through the lifecycle of a project, particularly when the changes are more straightforward. This might be tailored to the specific circumstances, and would be more relevant to a fundamental new standard such as the Leases project than to, say, Annual Improvements.

Is the change necessary?

We agree that the standard setting process should include an assessment of the consequences of proposed new standards, including the extent to which any proposed change is an improvement on any existing standard or practice. In the interests of consistency and the avoidance of confusion among investor groups, we would expect that one of the first pieces of effects analysis performed would be whether the proposed change is an improvement on existing practice. For example, despite the "revenue project" arguably providing greater intellectual coherence, we have questioned whether from a practical perspective there is any need for a new revenue standard when the existing IAS 18 and IAS 11 are generally applied consistently and without significant issues. We would encourage standard setters to first consider whether any change is necessary before proposing amended or new standards.

Objective of financial reporting

Before discussing the ideas in the discussion paper in more detail, we think it is important to reflect upon the objective of financial reporting. The IASB's Conceptual Framework for Financial Reporting "Conceptual Framework", in paragraph OB2, states that the objective of financial reporting is:



Registered in England and Wales: No. 102498
Registered Office:
1 St. James's Square, London SW1Y 4PD

> "to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. Those decisions involve buying, selling or holding equity and debt instruments, and providing or settling loans and other forms of credit."

We agree that the objective of financial reporting is to provide financial information to BP's shareholders and creditors, and that the process of standard setting should consider this as its primary objective. While other stakeholders and interested parties may find useful information in the financial statements, this is not their main purpose. The Conceptual Framework affirms this in paragraph OB10:

> "Other parties, such as regulators and members of the public other than investors, lenders and other creditors, may also find general purpose financial reports useful. However, those reports are not primarily directed to these other groups."

Scope of "effects" analysis

We largely agree with the concept of effects analysis as set out in Section 3 of the discussion paper, and that its scope should be broader than a cost-benefit analysis. We believe that it is appropriate for "effects analysis" of accounting standards to consider issues such as the public interest and matters of relevance to regulators, governments and others. However, as mentioned above, we would usually expect accounting standards to be developed to address the needs of investors and creditors (including the indirect costs to investors arising from the burden placed on preparers).

Unfavourable consequences of improved accounting standards for other user groups, such as regulators, should be highlighted to those users and it would then be for them to deal with or mitigate those consequences as appropriate. For example, we would expect an accounting standard on impairment of financial assets to provide the most meaningful information on financial assets to shareholders and creditors. To the extent that the impairment provision calculated for financial reporting purposes diverges from an impairment provision that banking regulators might consider useful, we do not believe that should impact the model used for financial reporting. Clearly if the aims of a broader group of users (as well as shareholders and creditors) can be met through a single approach, or through some level of compromise, that should be followed.

We would encourage the effects analysis to include not only direct effects, but second- and third-order effects as well ("effects of effects") and to anticipate unintended consequences. For example, a new standard might result in recognition of additional financial liabilities on a company's balance sheet. The "effects of those effects" might include the resulting effect on ratings agencies' evaluation of that company and consequent impact on the cost and availability of financing.

We agree that the depth of the effects analysis performed should be tailored to the particular circumstances of the proposed change – the degree of analysis required for a comprehensive new standard will be significantly more than for a relatively minor amendment.

Definition

We think that the definitions, as set out in the discussion paper, could be clearer. For example, the definition of "effects analysis" in paragraph 2.2 includes the word "effects". We recognize that "effects" are subsequently defined in paragraph 3.2, but it might be better to articulate this in a single sentence.

As discussed above, the objective of financial reporting is to provide useful financial information to investors and creditors. While the interests of investors and creditors may often be aligned with those of other stakeholders or the public at large, we question whether "serving the public interest by contributing positively to delivering improved financial reporting" should be the reference for assessing the effects of accounting standards - "serving the public interest" and "improved financial reporting" are not necessarily the same objective. For example, an "incurred loss" model for impairment of financial assets might be useful for investors in terms of assessing the performance of management – one of the objectives of good financial reporting. However, if the "un-incurred" (or "not- yet-incurred") losses lead to excessive lending by lenders and over-leveraging in households, this would not be serving the public interest.

We would expect the effects analysis to include both the impacts on the quality of financial reporting and the impact on broader society. Consequences affecting the wider "public interest" would not necessarily impact decisions taken by the standard setters, but should be used to inform relevant parties so that they can adapt appropriately. In deciding on change the Board should focus on the needs of investors and creditors, but effects on other stakeholders should be identified and communicated as appropriate.

Considering the broader scope of the analysis we do not believe it should be referenced against any particular objective, and so we would propose a revised definition:

> "Effects analysis" is defined as "a systematic process for considering the consequences that flow, or are likely to flow, from accounting standards as those standards are developed and implemented."

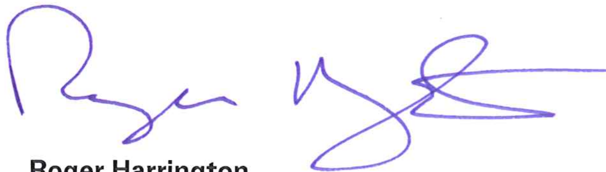
Who should perform the analysis?

We agree that the standard setter is best placed to be the responsible party for ensuring that the effects analysis is performed. However, it will not always be necessary or appropriate for the standard setter to actually perform the effects analysis itself, particularly where the effects are not within the standard setter's core area of expertise. For example, it would probably be more effective to ask an appropriate regulator or group of regulators to consider the impact of a new financial instruments standard on questions of overall stability of the banking system. We suggest that the standard setter coordinate the effects analysis, drawing on appropriate experts to provide input as necessary.

* * *

If you wish 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