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Ms. Dora Cheung
International Accounting Standards Board
30 Cannon Street
London
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Dear Ms. Cheung,

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Re: Invitation to Comment – Exposure Draft First Annual Improvements Project

We welcome the opportunity to comment on the exposure draft of the First Annual Improvements Project, to which I am responding on behalf of BP p.l.c. Our comments are limited to matters where we disagree with the proposed amendments or have other concerns.

Yours sincerely

F W M STARKIE

APPENDIX

Responses to the Invitation to Comment

IASB Q5: Do you agree with the proposal to require an entity that cannot make an unreserved statement of compliance with IFRSs to describe how its financial statements would have been different if prepared in full compliance with IFRSs? If not, why?

We believe that this requirement places an excessive burden on entities, who are placed in the difficult position between, on the one hand, the IASB's legitimate desire to protect its brand, and, on the other, the legitimate desire of "country X" to ensure that the accounting standards used in its jurisdiction are soundly-based and appropriate. Lack of compliance could be simply because the endorsement procedure for the use of IFRSs is slow. Furthermore, we wonder whether this requirement is really practical- how would entities deal with the situation in which country X "carved out" or made illegal this proposed requirement?

We think the solution is twofold:

1. for the IASB to encourage, but not mandate, entities to provide a list of IFRSs which have not been complied with and the reason for this.
2. for the IASB to concentrate on developing standards of such a nature and quality that they will be endorsed and complied with.

IASB Q6: Do you agree with the proposal to amend the examples in paragraphs 68 and 71 of IAS 1 to remove the potential implication that financial assets and financial liabilities that are classified as held for trading in accordance with IAS 39 are required to be presented as current? If not, why?

We agree with the proposal but do not think that the deletion of the references to IAS 39 in paragraphs 68 and 71 goes far enough to make the requirements clear. This is because paragraphs 66 and 69 still require assets and liabilities held primarily for the purpose of trading to be classified as current. In our view this could be a source of confusion and therefore explicit specific criteria should be provided for the presentation of the financial assets and financial liabilities classified as held for trading under IAS 39.

IASB Q15: Do you agree with the proposal to amend the definition of return on plan assets in paragraph 7 of IAS 19 to require the deduction of plan administration costs only to the extent that such costs have not been reflected in the measurement of the defined benefit obligation? If not, why?

In our view there are two separate elements in the "plan administration costs" – the costs of managing the plan's investments and the costs of managing the plan's benefits. We agree that the administration costs of plan assets should be reflected in the return of assets rather than as an element of the obligation, and we assume that it is this cost that the example illustrating paragraph 106 of IAS 19 shows as part of the expected rate of return. We do not believe that including all plan administration costs in the return on assets is appropriate, and this approach would, in the case of an unfunded defined benefit plan, result in a negative return on assets which would seem an unhelpful outcome. We believe that many entities account for the cost of the administration of non-medical benefits as they are incurred (as part of current service cost) rather than as part of the plan benefit obligation on the grounds that such costs are generated by executory contracts and are incurred only when the service is provided.

In considering this issue we note that paragraph 75 of the Basis for Conclusions to IAS 19 states that the Board decided that all plan administration costs (not just investment administration costs) should be deducted in determining the return on plan assets. However, the Basis for Conclusions does not form part of any standard. The exception in paragraph 107 and the proposed modification to the definition referred to in the question above indicate that the decision was not fully integrated into the existing IAS 19. We do not think that the current or proposed revisions to IAS 19 make it clear how to treat these costs. The only explicit requirement to include plan benefit administration costs in the financial assumptions for the defined benefit obligation and service cost is limited to the "case of medical benefits ...... the cost of administering claims and benefit payments, where material" (paragraph 73b (iii)).

We believe that the current standard is confusing in this area and that further guidance should be provided in the body of IAS 19 to clarify the treatment of benefit administration costs.

IASB Q16: Do you agree with the proposal to replace in IAS 19 the term "fall due" with the notion of employee entitlement in the definitions of short-term employee benefits and other long-term employee benefits? If not, why?

While we agree with the principle that the proposal is trying to define, we do not think that the use of the word "entitled" in the amendment achieves this. In our understanding, the employee is actually entitled to the benefits (whether short- or long-term) because the employee has rendered the qualifying service. This entitlement exists at the period end and gives rise to the present obligation, which is recognised as a liability. The classification between short- and long-term depends upon the expectations or rules about when the benefits can be used.

In order to make the definition clear, we suggest that it should be something like this:

"Short-term employee benefits are employee benefits (other than termination benefits) to which the employee is entitled and which are expected or required to be used within twelve months after the end of the period in which the employee renders the related service.
Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) to which the employee is entitled and which are not expected or allowed to be used within twelve months after the end of the period in which the employee renders the related service."

IASB Q27: Do you agree with the proposal to amend paragraph 134(e) of IAS 36 to require the same disclosures to be given for fair value less costs to sell as are required for value in use when discounted cash flows are used to calculate fair value less costs to sell? If not, why?

We agree with the proposal but expect that it would apply in extremely rare cases. For the fair value less costs to sell to be higher than the value in use, the entity would have to assume that a potential purchaser would achieve better cash flows from using the asset than it can itself, or that a more favourable discount rate could be enjoyed by the purchaser, or that a purchaser would have a more favourable tax position. While such a technique is justifiable in the case of financial instruments where the behaviours and circumstances of market participants may be more easily observable, we doubt whether this will often be the case for intangible assets and cash-generating units. We wonder, therefore, how valid a recoverable amount based upon a fair value less costs to sell determined by discounted cash flows might be, and agree that detailed disclosure of all the key assumptions is necessary.

IASB Q28 (a): Do you agree that IAS 38 should recognise expenditure on an intangible item as an expense when it has access to the goods or has received the services? If not, why not?

IASB Q28 (b): Do you agree that paragraph 70 of IAS 38 should be amended to allow an entity to recognise a prepayment only until it has access to the related goods or has received the related services? If not, why?

We agree with the alternative view of Mr. Leisenring that IAS 38 should not be applied to goods, which have physical substance and are not intangible assets. These should be recognised as expense in accordance with applicable IFRSs.

We agree, however, with the two amendments referred to above in respect of services received.

IASB Q30: Do you agree with the proposal to amend IAS 39 by removing from the definition of a derivative the exclusion relating to contracts linked to non-financial variables that are specific to a party to the contract? If not, why?

We do not agree with this proposal. Although we accept that the original purpose for the insertion of these words in the definition is no longer present, we suspect that removal of this exclusion may mean that new types of contracts will become derivatives. Examples of such contracts might be franchise agreements or employee performance contracts with conditions linked to variables specific to one of the parties. We do not believe that a change of this sort should be introduced without a full consideration of the implications.