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13 July 2003

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Dear Ms McGeachin,

Exposure Draft of Proposed Amendments to IAS 19 Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures

I am writing on behalf of BP p.l.c. We welcome the opportunity to respond to the request for comments on the exposure draft of proposed amendments to IAS 19 (the ED). Firstly, we make some comments on areas of particular concern to us and then respond to the questions raised in the ED.

Although we generally advocate harmonisation of accounting standards across the world, we have found that the "smoothing" approach of US GAAP and the UK's SSAP 24 leads to a balance sheet position and income statement effects which are invariably difficult to explain and often totally counter-intuitive. The BP Group is convinced of the merits of measuring the liability for post-retirement benefits and the related fund assets at fair value, and has therefore recently adopted the UK standard which requires this - FRS 17. We believe that this approach reflects the economic reality of the net obligation, and that it is more helpful for the user of the financial statements for these items to be recognised rather than merely to be disclosed in notes to the financial statements.

Once the balance sheet liability has been recognised and remeasured, it is of course necessary to deal with the resulting gains and losses. At present there appears to be no solution which is fully in accordance with the accepted accounting frameworks. Until such time as a solution has been agreed, we believe that the most appropriate method is to allow the actuarial gains and losses to be recognised directly in equity, while recognising in the income statement only those items which are generally accepted as belonging there, e.g. the periodic service cost, accretion of the liability, etc. In our opinion this approach is just as valid as that of applying a "corridor" method to the recognition of actuarial gains and losses and has the great advantage of transparency, allowing the user to have access to all the data required to make his own assessment of the impact of the gains and losses on the entity's results.

We do recognise that there is a pressing need to develop a globally acceptable approach to the accounting treatment of post-employment benefits and would therefore encourage the IASB in its cooperation with the USA's FASB. Such an approach would inevitably require as a corollary the development of a comprehensive income statement, and we would also support the Boards' work towards this.

Please do not hesitate to contact me at the above address if you have any points you wish to discuss.

Yours sincerely

G D HODGKISS

APPENDIX

RESPONSES TO SPECIFIC QUESTIONS RAISED IN THE ED

Q1 ***Initial recognition of actuarial gains and losses***

IAS19 requires actuarial gains and losses to be recognised in profit or loss, either in the period in which they occur or on a deferred basis. The Exposure Draft proposes that entities should also be allowed to recognise actuarial gains and losses as they occur, outside profit or loss, in a statement of recognised income and expense.

Do you agree with the addition of this option? If not, why not?

A1 We agree that this additional option should be made available to companies adopting IFRS, as we believe it is of equal, if not greater, theoretical validity compared with the other methods which are already permitted under IAS 19. This would be particularly helpful to companies like BP as it would facilitate a transition to IFRS with the minimum of disruptive change from the current GAAP.

In contrast, we are not convinced that it is necessary to present the actuarial gains and losses in a "Statement of Recognised Income and Expense" (SORIE). The illustrative example given in the ED has the disadvantage of resulting in a fragmentation of the statement of changes in equity which makes it difficult to understand all the movements in equity. If this presentation were to be mandatory, a further comprehensive movements table would also be required to pull together all the changes in equity in a clear format. The only advantage the SORIE has, in our opinion, is that it places side by side certain of the movements of the current and previous year. However, given the volatility of the items that are taken directly to equity, the usefulness of this is not compelling.

From an editorial point of view, we believe that the reference in paragraph 93B to the "columnar" presentation of paragraph 100 of IAS 1 should be to paragraph 101 of IAS 1. In our opinion, both paragraph 93B and the proposed amendments to paragraph 96 of IAS 1 are not clearly worded and should be redrafted to enhance their clarity.

Q2 ***Initial recognition of the effect of the limit on the amount of a surplus that can be recognised as an asset***

Paragraph 58(b) of IAS 19 limits the amount of a surplus that can be recognised as an asset to the present value of any economic benefits available to an entity in the form of refunds from the plan or reductions in future contributions to the plan (the asset ceiling). The Exposure Draft proposes that entities that choose to recognise actuarial gains and losses as they occur, outside profit or loss in a statement of recognised income and expense, should also recognise the effect of the asset ceiling outside profit or loss in the same way, i.e. in a statement of recognised income and expense.

Do you agree with the proposal? If not, why not?

A2 We agree that it is consistent to recognise the effect of the asset ceiling directly in equity.

Q3 ***Subsequent recognition of actuarial gains and losses***

The Exposure Draft proposes that, when actuarial gains and losses are recognised outside profit or loss in a statement of recognised income and expense, they should not be recognised in profit or loss in a later period (i.e. they should not be recycled).

Do you agree with this proposal? If not, why not?

A3 We agree with the Board's statement in the basis for conclusions that it is difficult to define a rational method for the identification of the gains and losses to be recycled into the income statement. It is therefore probably better not to attempt this pending development of a global approach to pension accounting and comprehensive income.

Q4 *Recognition within retained earnings*

The Exposure Draft also proposes that, when actuarial gains and losses are recognised outside profit or loss in a statement of recognised income and expense, they should be recognised immediately in retained earnings, rather than recognised in a separate component of equity and transferred to retained earnings in a later period.

Do you agree with this proposal? If not, why not?

A4 We agree that, as in the case of recycling, it is also difficult to find a rational basis for the transfer of actuarial gains and losses between different categories of equity.

Q5 *Treatment of defined benefit plans for a group in the separate or individual financial statements of the entities in the group*

(a) The Exposure Draft proposes an extension of the provisions in IAS 19 relating to multi-employer plans for use in the separate or individual financial statements of entities within a consolidated group that meet specified criteria.

Do you agree with this proposal? If not, why not?

(b) The Exposure Draft sets out the criteria to be used to determine which entities within a consolidated group are entitled to use those provisions.

Do you agree with this proposal? If not, why not?

A5 We agree with the proposal to extend the use of the provisions of IAS 19 in respect of multi-employer schemes to entities in a consolidated group. While recognising that a blanket exemption for subsidiaries from accounting for defined benefit schemes as such is probably undesirable in some cases, we do question whether such information is of value to the user of the financial statements of wholly-owned subsidiaries. We therefore question whether the cost of arriving at an allocation method and applying it to arrive at individual defined benefit figures for the individual disclosures of possibly several hundred subsidiaries, as is the case for BP in the UK, is justifiable. The disclosure of the existence of a guarantee of pension obligations from the group and the recognition of pension expense on the basis of a charge-out or defined contribution is probably sufficient for most users' needs. In the case of a purchase of a subsidiary the value of a pension obligation is usually the object of negotiation anyway, and previous accounting treatment is irrelevant.

The criteria in paragraph 34(c) effectively mean that the ultimate parent in a group will always have to account for post-retirement benefits in its individual financial statements, unless it has no employees. In view of the requirements for the consolidated financial statements to account for and disclose pension obligations on the relevant basis this additional requirement appears excessive. Disclosure of the parent's guarantees in respect of subsidiaries' obligations should be sufficient.

Q6 *Disclosures*

The Exposure Draft proposes additional disclosures that (a) provide information about trends in the assets and liabilities in the defined benefit plan and the assumptions underlying the components of the defined benefit cost and (b) bring the disclosures in IAS 19 closer to those required by the US standard SFAS 132 Employers' Disclosures about Pensions and Other Postretirement Benefits.

Do you agree with the additional disclosures? If not, why not?

A6 Disclosure closer to the requirements of SFAS 132 is acceptable for companies which also have US filing obligations. Other companies may find this excessive.

Q7 ***Recognition within retained earnings***

Do you believe that any other disclosures should be required, for example the following disclosures required by SFAS 132? If so, why?

(a) a narrative description of investment policies and strategies;

(b) the benefits expected to be paid in each of the next five fiscal years and in aggregate for the following five fiscal years; and

(c) an explanation of any significant change in plan liabilities or plan assets not otherwise apparent from other disclosures.

SFAS 132 also encourages disclosure of additional asset categories if that information is expected to be useful in understanding the risks associated with each asset category.

A7 We see no compelling reason to require additional disclosures.