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Dear Colin

EXPOSURE DRAFT ED 6 EXPLORATION FOR AND EVALUATION OF MINERAL RESOURCES

I am pleased to have the opportunity to respond on behalf of BP p.l.c. to the exposure draft ED 6 Exploration for and Evaluation of Mineral Resources (ED 6). Our comments deal first with some issues that we are particularly concerned with, and then in an attachment with the specific issues raised in the invitation to comment section of ED 6. We limit our response to the Oil and Gas sector, which is of most relevance to us.

The need for ED 6

As one of the three largest public companies in the oil and gas sector and a foreign registrant filing with the US Securities and Exchange Commission, we are well aware that there is a broad range of varied approaches used across the world to account for oil and gas exploration expenditure. At present BP accounts for such expenditure in accordance with the UK's Statement Of Recommended Practice-Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities (SORF). In the absence of an IFRS dealing specifically with our industry we strongly support temporary measures which allow companies to continue with their current methods for accounting for exploration and evaluation expenditure, pending the development of a definitive approach. We believe it would be extremely disruptive for users of our financial statements and for the company itself to have to change its accounting policies in the short term while awaiting the long-term solution. In view of the large number of US companies in the oil and gas sector, and the fact that several non-US oil and gas majors who will soon be adopting IFRS are foreign registrant filers in the USA, we would also strongly recommend that the long-term standard be developed with international harmonisation in mind in order to achieve convergence on a principles-based standard which deals specifically with exploration and evaluation activities in the oil, gas and minerals industries and recognises the distinction between these activities and pure research activity.

Impairment

We recognise that ED 6 is seeking to allow companies to continue with their current accounting methods while trying to impose on the accounting for exploration expenditure the rigour of the approach to impairment included in IAS 36 Impairment. In this respect it has to cater for both the successful-efforts and the full-cost approaches to exploration. We are however concerned that the provisions of ED 6 will actually modify the accounting policies of companies which currently apply the successful-efforts method in that ED 6 appears to impose a full annual impairment test. In this context, we would define an impairment test in the way it is described in paragraph 10 (a) of IAS 36, i.e. “test ... for impairment ... by comparing [the asset’s] carrying amount with its recoverable amount”. The wording of ED 6 paragraph 1(b) (‘test such assets for impairment’) and paragraph 12 (“assess those assets for impairment annually”) appears to us to make an annual impairment test mandatory, whereas paragraph 13 seems rather to indicate that the intention is for a mandatory annual review for impairment indicators, which would be followed by an impairment test if such indicators exist. The latter intention would be consistent with the general requirements of IAS 36, paragraph 9. In the case of an obligatory impairment test the list of relevant indicators of impairment in paragraph 13 of ED 6 is, of course, redundant.

If our understanding of the Board’s intention is correct, we suggest that the wording of paragraph 12 of ED 6 be aligned fully with that of paragraph 9 of AS 36 to make it clear that the requirement is for an annual review for indication of impairment with a subsequent impairment test to be performed if there is indication of impairment.

Although we agree that entities must ensure that assets are not carried at an amount greater than their recoverable amount, we believe that the nature of exploration and evaluation assets is such that the production of a reliable estimate of future cash flows specifically identifiable to those assets is almost impossible to achieve until the evaluation is complete. There is generally a fairly long delay between the completion of exploration drilling and the determination of commercially-exploitable reserves, and this is recognised by the relevant UK and US standard-setters. Under BP's current policy, in conformity with UK and US GAAP, we carry out a review for impairment indicators at the end of each quarter and proceed with a full impairment test if impairment triggers are present. Where no further activity is planned and the prospect has not been appraised to have proved reserves the expenditure is written off. If a sufficient level of appraisal activity has been conducted a cash flow assessment is performed and any impairment identified is then reflected in the results of the period. In performing the impairment test we would not shelter a specific exploration asset, such as an licence block, from impairment by grouping it with other assets. The requirement for a mandatory impairment test in the absence of specific indication of impairment would result in more impairment losses being recognised than under current practice for companies such as ours who use the successful-efforts approach, as there would be no cash inflows forecast to be generated by the assets at this stage. We therefore believe very strongly that the impairment test must only be mandatory if indications of impairment have been identified.

Our response to the specific questions raised in the introduction to ED 6 are appended.

If you have any points you wish to discuss, please do not hesitate to contact me at the address above.

Yours sincerely

GD Hodgkiss

Responses to specific questions raised in ED 6

Question 1— Definition and additional guidance

The proposed IFRS includes definitions of exploration for and evaluation of mineral resources, exploration and evaluation expenditures, exploration and evaluation assets and a cash-generating unit for exploration and evaluation assets. The draft IFRS identifies expenditures that are excluded from the proposed definition of exploration and evaluation assets. Additional guidance is proposed in paragraph 7 to assist in identifying exploration and evaluation expenditures that are included in the definition of an exploration and evaluation asset (proposed paragraphs 7 and 8, Appendix A and paragraphs BC12-BC14 of the Basis for Conclusions).

We agree that the types of expenditure listed in paragraph 7 of ED 6 are of a type which may be capitalised. We believe that it must be made clear that this is a list of examples rather than an exclusive list.

We suggest that paragraphs 7 and 8 could be harmonised with the definitions of IAS 16 *Property, Plant and Equipment* by including the notion of costs having to be directly attributable. This would clarify the exclusion of administrative and other general overhead costs dealt with in paragraph 8 (a).

Question 2— Method of accounting for exploration for and evaluation of mineral resources

(a) Paragraphs 10-12 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors specify sources of authoritative requirements and guidance an entity should consider in developing an accounting policy for an item if no IFRS applies specifically to that item. The proposals in the draft IFRS would exempt an entity from considering the sources in paragraphs 11 and 12 when assessing its existing accounting policies for exploration and evaluation expenditures by permitting an alternative treatment for the recognition and measurement of exploration and evaluation assets. In particular, the draft IFRS would permit an entity to continue to account for exploration and evaluation assets in accordance with the accounting policies applied in its most recent annual financial statements.

(b) The Exposure Draft proposes that an entity would continue to use its existing accounting policies in subsequent periods unless and until the entity changes its accounting policies in accordance with IAS 8 or the IASB issues new or revised Standards that encompass such activities (proposed paragraph 4 and paragraphs BC8-BC11 of the Basis for Conclusions). Are these proposals appropriate? If not, why not?

We agree that the proposals are appropriate in order to ensure that entities applying IFRS for the first time do not suffer from the disruption of having to adopt new and potentially very different accounting policies pending development of a specific IFRS for the industries concerned. In view of the preponderance of US companies and the widespread use of US GAAP in the Oil and Gas industries, we would strongly recommend that the Board work to achieve a harmonised international approach to this area.

***Question 3— Cash-generating units for exploration and evaluation* assets**
[Draft] IAS 36 requires entities to test non-current assets for impairment. The draft IFRS would permit an entity that has recognised exploration and evaluation assets to test them for impairment on the basis of a 'cash-generating unit for exploration and evaluation assets' rather than the cash-generating unit that might otherwise be required by [draft] IAS 36. This cash-generating unit for exploration and evaluation assets is used only to test for impairment exploration and evaluation assets recognised under proposed paragraph 4 (see proposed paragraphs 12 and 14 and paragraphs BC15-BC23 of the Basis for Conclusions). Are the proposals appropriate? If not, why not? If you disagree with the proposal that exploration and evaluation assets should be subject to an impairment test under [draft] IAS 36, what criteria should be used to assess the recoverability of the carrying amount of exploration and evaluation assets?

As discussed in the covering letter, it should be clarified that the requirement is for an annual review for indication of impairment followed by a mandatory impairment test if such indication is present.

If an impairment test is found to be necessary because of the presence of impairment indicators, entities in the relevant industries should be allowed specifically to include in the impairment test the effect of those future expenditures which are necessary to give access to the future cash flows through the development of the related reserves.

The use of the notion of cash-generating unit can apply only to assets which are productive and not to exploration and evaluation assets where the determination of commercial viability is incomplete. It appears that the definition of a cash-generating unit for exploration and evaluation assets can therefore apply only to assets of companies using the full-cost approach under their pre-IFRS accounting policies. The wording of this definition, in specifying ‘accounting policies applied in its most recent financial statements’, effectively excludes its application to successful-efforts companies. Companies using the successful-efforts approach would invariably have to write off exploration assets every year under these proposals whereas ‘full-cost companies’ might be able to shelter such costs indefinitely.

Furthermore, the definition of the cash-generating unit for exploration and evaluation assets qualified by the words “on which impairment tests were performed “ could be interpreted to mean that it applies only to those CGU’s that have previously been tested for impairment, and not to all such assets. In order to avoid any such confusion about how the impairment review and test requirements are to be applied, we believe it is helpful to use the terms “full cost” and “successful efforts”, which are widely used and understood within the relevant industries, and to state that these policies can be maintained, provided that the annual review for impairment indicators is rigorously applied.

Question 4—Identifying exploration and evaluation* assets *that may be impaired

The draft IFRS identifies indicators of impairment for exploration and evaluation assets. These indicators would be among the external and internal sources of information in paragraphs 913 of [draft] IAS 36 that an entity would consider when identifying whether such assets might be impaired (paragraph 13 and paragraphs BC24-BC26 of the Basis for Conclusions).

Are these indicators of impairment for exploration and evaluation assets appropriate? If not, why not? If you are of the view that additional or different indicators should be used in assessing whether such assets might be impaired, what indicators should be used and why?

We agree that it is necessary to provide specific indicators in addition to the more general indicators of IAS 36 and that the indicators listed appear appropriate.

Question *5— Disclosure*
To enhance comparability, the draft IFRS proposes to require entities to disclose information that identifies and explains the amounts in its financial statements that arise from the exploration for and evaluation of mineral resources (proposed paragraphs 15 and 16 and paragraphs BC32-BC34 of the Basis for Conclusions). Are the proposed disclosures appropriate? If not, why not? Should additional disclosures be required? If so, what are they and why should they be required?

We agree that disclosures which assist users of financial statements to compare the accounting treatments adopted by different companies are appropriate. Disclosures must, however, not be excessive in detail or in scope.

The use of the phrase “arising from” in the requirements of paragraph 16 (b) might result in varying interpretations of what should be disclosed. The use of a clearer definition and specific examples of what is required would be helpful to understanding.