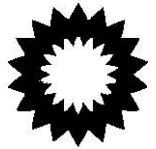




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Dear Sir or Madam

**RESPONSE TO EXPOSURE DRAFT: ED1 FIRST-TIME APPLICATION OF
INTERNATIONAL FINANCIAL REPORTING STANDARDS**

We welcome the opportunity to comment on the above Exposure Draft. As a major international group with stock listed on a number of exchanges in different countries we are pleased to be participating in the global harmonisation of accounting standards.

The BP group is currently reporting under UK GAAP and we anticipate that adoption of IFRS in 2005 will require a great deal of effort in understanding, education (both within the BP group and in the financial community in general), training and systems conversion. The size of this task should not be underestimated. In view of this and the fact that certain crucial IFRSs will not be finalised by the end of 2002, we believe that it is unreasonable to expect companies to have in place the documentation required to qualify for hedge accounting by 1 January 2003 (the date of transition for US foreign registrant companies), as required by paragraphs 24 and C2-C4 of ED1. Furthermore, it may be expected that many of the hedging transactions covered by such documentation will mature before the adoption of IFRS and the effort thus undertaken could be viewed as wasted. We believe that a more realistic approach is to require the necessary documentation for hedge accounting to be in place by 1 January 2005 for hedges to be accounted for prospectively from that date, with any cumulative effect adjustment passing through shareholders' equity at that time, and that the hedge accounting techniques applied before that date be allowed to stand for the comparative periods preceding the year of adoption.

Our responses on the specific questions asked by the Board in ED1 are as follows.

**Q1. The proposed IFRS would apply when an entity first adopts International Financial Reporting Standards (IFRSs) as its new basis of accounting, by an explicit and unreserved statement of compliance with all IFRSs (paragraphs 1-5 and paragraphs BC4-BC10 of the Basis for Conclusions).
Is this an appropriate description of the circumstances when this proposed IFRS should apply? If not, what changes would you suggest, and why?**

A1. We agree that the described circumstances are appropriate.

Continued.../

- Q2. The proposed IFRS proposes a requirement that an entity shall prepare its opening IFRS balance sheet using accounting policies that comply with each IFRS effective at the reporting date for its first IFRS financial statements. Paragraphs 13-24 propose limited exemptions from this requirement.**

Are all these exemptions appropriate? Should the Board amend any of these exemptions or create any further exemptions (paragraphs BC11-BC89)? If so, why?

- A2.** We agree with the exemptions defined in paragraphs 13-24 with the following exceptions.

Paragraph 24 of the proposed IFRS requires the hedging requirements of amended IAS39 to be applied prospectively from the date of transition to IFRS. For an entity which files its financial statements with the USA's SEC as a foreign registrant, the requirement for two years' comparative figures to be reported alongside the figures for the current reporting period means that the date of transition to IFRS is 1 January 2003. Whilst we understand the Board's benchmark for balancing benefits and costs, as explained in paragraph BC13, we do not believe that most large international groups will be sufficiently advanced in their preparations for IFRS to be able to complete the detailed and voluminous documentation required to ensure that hedges currently accounted for as such continue to qualify for hedge accounting under amended IAS39 paragraphs 142-152. This task is made all the more difficult because the requirements of IAS39 are still at the stage of proposed amendments and will not be finalised until the first quarter of 2003, at the earliest. In addition, the proposed amendments to IAS39 appear to prohibit the hedging of net exposures and hedging on a portfolio basis, both of which are acceptable economic practices used by many companies we are aware of.

In view of the controversy surrounding some aspects of IAS39 and its current state of flux, we believe that it is unreasonable to require first-time adopters in the European Union in 2005 to satisfy the IAS39 documentation and effectiveness criteria at, or "very soon after" the date of transition. It appears to us that a less onerous approach would be to allow hedge accounting as practised under the entity's prior GAAP to continue during the comparative periods up to the end of the period prior to that of its first IFRS financial statements. This would allow sufficient time for the entity to understand fully the detailed requirements of the definitive amended IAS39, to train its staff, to prepare thoroughly the required documentation and to implement any consequential systems modifications.

- Q3. Paragraphs 28-37 of the proposed IFRS deal with presentation and disclosure requirements (see also paragraphs BC90-BC97). Are all of these disclosures appropriate? Should the Board require any further disclosures or eliminate or amend any of the proposed disclosure requirements? If so, why?**

- A3.** These disclosure requirements are quite onerous, particularly those relating to reconciliations of equity and profit or loss. However, we believe that these disclosures are of much value to users and will help preparers to understand better the impact of the adoption of IFRSs, and therefore on balance we agree with the proposals. In the absence of such requirements we believe that many sophisticated users would demand such information anyway.

- Q4. Do you have any other comments on the Exposure Draft?**

- A4.** We have no further comments.

Yours faithfully



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