Dear Sirs

Re: File Reference No. 1730-100 Proposed Accounting Standards Update: Oil and Gas Reserve Estimation and Disclosures

BP is pleased to provide comments to the Financial Accounting Standards Board (FASB) on the “Proposed Accounting Standards Update: Oil and Gas Reserve Estimation and Disclosures”.

BP welcomes the alignment of the Financial Accounting Standards Board oil and gas reserves estimation and disclosure requirements with the requirements of the Securities and Exchange Commission’s final rule “Modernization of the Oil and Gas Reporting Requirements”.

BP’s responses to each of the Questions for Respondents posed in the Exposure Draft of the Accounting Standards Update (ASU) are included in Appendix I. The following are some additional comments on the Exposure Draft which we would like the Board to consider.

Equity Accounted Entities Disclosures

BP welcomes the Board’s decision to permit presentation of a total of reserve quantities of consolidated subsidiaries and the entity’s share of reserves of equity accounted entities. We feel this is a positive step which will be helpful for investors and will make our external reporting better aligned with how management manage reserves internally.

However, we have strong reservations in relation to the Board’s proposal to require the same level of detailed disclosures for equity accounted entities as for consolidated entities for all oil and gas specific disclosures. We believe these detailed disclosures are appropriate for reserves, and the standardized measure of discounted future cash flow disclosures. However, we do not believe that detailed disclosures should be required for financial statement amounts. Such information is not used by management to manage equity accounted entities and would need to be collected solely for external reporting purposes.

Furthermore, whilst obtaining such information from equity accounted entities is possible, it is difficult to get the required systems and processes in place for preparation and collection of this data in time for 2009 reporting. Therefore, should the Board proceed with this requirement for expanded disclosure of the financial statement amounts we would request that implementation of this aspect be deferred until reporting periods ending on or after 31 December 2010.
Cost Assumptions

Topic 932-235-50-31 refers to basing the standardized measure of discounted future cash flows on year-end costs and assuming continuation of existing economic conditions. Similarly, Topic 932-235-50-35 refers to changes in quantities being stated “at prices used in estimating proved oil and gas reserves and year-end costs”. BP believes that the cost assumptions used in the standardized measure should be consistent with those used in the estimation of proved oil and gas reserves. The Commission’s final rule requires the use of existing economic conditions, including prices and costs, in the estimation of proved oil and gas reserves. The final rule is very specific on the determination and application of average prices, but is silent with respect to the cost assumptions which constitute existing economic conditions. We feel that the use of year-end costs is inconsistent with the use of average prices, and could lead to misalignment between costs and prices in periods where there has been significant or rapid change in the external environment.

Furthermore, the use of average rather than year-end costs in reserves estimation is supported by reference to the Petroleum Resource Management System (PRMS), to which the Commission’s final rule is closely aligned. PRMS Section 3.1.2 states the following: “The economic evaluation underlying the investment decision is based on the entity’s reasonable forecast of future conditions, including costs and prices, which will exist during the life of the project (forecast case). Such forecasts are based on projected changes to current conditions; SPE defines current conditions as the average of those existing during the previous 12 months.”

Lastly, it is not generally practical to determine a year-end cost. Although the use of year-end costs was required under the previous Commission rule for reserves estimation and the existing Accounting Standards for disclosures, in practice a single-day year-end cost was not available and could not be reliably determined without significant effort. The use of some form of average costs approach is far more practical.

We feel it is essential that the requirements of the Accounting Standards can be complied with in a practical manner. For these reasons, we urge the Board to revise the aforementioned sections of Topic 932 to avoid references to year-end costs. We have taken the liberty of suggesting some alternative wording on cost assumptions in Appendix II.

Probable and Possible Reserves Definitions

The Commission’s final rule permits the disclosure of probable and possible reserves. BP understands and agrees with the Board’s decision that if entities elect to optionally report probable or possible reserves, this reporting should not be included within Topic 932. However, we feel it would be appropriate for the ASU to include, for completeness, the definition of Probable and Possible reserves in the Master Glossary. Our concern is that inclusion of the broader Reserves definition in the Master Glossary could potentially cause some confusion if the probable and possible reserves definitions are not included too.

Extension Wells

The Commission’s final rule and Topic 932 include a definition of Extension Wells. BP feels it would be helpful to describe the accounting treatment for such wells. For example, it would be helpful to clarify whether the Board would expect a dry extension well to be expensed, aligned with the treatment of exploration wells, or whether the cost of a dry extension well could continue to be capitalised, aligned with the treatment of a dry development well.
We are grateful to the Board for providing us with the opportunity to comment on the Exposure Draft. BP would be happy to discuss these comments further with the Board and to answer any questions that may arise.

Yours faithfully

R.C. Harrington
APPENDIX I – BP responses to Questions for Respondents

Question 1. Do you agree with the Board’s decision to amend Topic 932 to clarify that equity method investments must be considered in determining whether an entity has significant oil and gas producing activities? Please describe any challenges that would be encountered in meeting this requirement.

BP agrees with the Board’s decision to amend Topic 932 to clarify that equity method investments must be considered in determining whether an entity has significant oil and gas producing activities. We would have no significant challenges in meeting this requirement.

Question 2. Do you agree with the Board’s decision to require that an entity disclose the same level of detail about equity method investments with significant oil and gas producing activities as it does for its consolidated subsidiaries? Please describe any challenges that would be encountered in meeting this additional requirement. Should the Board consider establishing a threshold below which the entity would not be required to provide oil and gas disclosures about its equity method investment with significant oil and gas producing activities? If so, what should be the basis of that threshold?

We believe the proposed disclosures are appropriate for reserves, and the standardized measure of discounted future cash flow disclosures as such disclosures would not be inconsistent with the way equity accounted entities are managed and presented externally. However, we do not feel that this level of disclosure for the financial statement amounts (i.e. costs, etc.) would provide useful information as they would be inconsistent with one line presentation of equity accounted entities on the balance sheet and income statement.

Furthermore, whilst obtaining such information from equity accounted entities is possible, it is difficult to set the required systems and process in place for preparation and collection of this data in time for 2009 reporting. Therefore, should the Board proceed with this requirement for expanded disclosure of the financial statement amounts we would request that implementation of this aspect be deferred until reporting periods ending on or after 31 December 2010.

In reply to your question regarding the thresholds, we believe that it would be helpful to introduce those to allow companies with insignificant investments to avoid the burden of reporting without adding much value to the users of the financial statements. We support the detailed proposals expressed in the comment letter of American Petroleum Institute.

Question 3: Should the Board consider permitting an entity to present the equity method investment quantity and amount detail in total rather than by geographic areas and product (if applicable)? See the appendix of this proposed Update for an example of this alternative presentation for reserve quantities.

BP agrees that it is helpful to have the option to present the equity accounted amount and quantity detail in total rather than by geographic areas and product where equity accounted investments are not significant.
Question 4: Do you agree with the Board’s decision to permit an entity to present a total of consolidated entity and the entity’s share of equity method quantities of reserves and financial statement amounts? Does the total for the financial statement amounts provide decision-useful information even though it would not agree to the corresponding financial statement line items of the entity, since equity method investments are presented net within a single line item of the financial statements?

BP supports the decision to permit presentation of a total of consolidated entity and the entity’s share of equity method quantities of reserves.

On a point of detail, it is our understanding that the reserves quantities of equity accounted entities should also include their share of their equity method quantities of reserves, as this would be consistent with how management views these volumes. Specific reference to this point in the Accounting Standards would be beneficial to ensuring consistency of approach.

However, we question the usefulness of adding the financial statement information for subsidiaries and equity accounted entities. Equity accounted entities are managed differently from subsidiaries. Group management does not have direct responsibility for management of capital allocated and operations of equity accounted entities. Therefore, we do not believe that it is appropriate to combine, for example, exploration costs of subsidiaries with exploration costs of associates and joint ventures. Some of this information would need to be collected solely for external reporting purposes as it is not used by group management.

On a similar point as with reserves, should the Board decide that the equity accounted disclosures of financial information are required, we believe it should be clarified whether, using the same example, the reported exploration costs of an equity accounted entity should include their share of exploration costs of their equity accounted entities.

Question 5: The Board decided that if the effect is significant and practical to estimate, an entity should disclose the effect (or portions of the effect) of the amendments to Topic 932 in this proposed Update on individual line items of the “roll-forward” disclosures of reserve quantity and the standardized measure for discounted future net cash flows. Do you agree with the Board’s decision not to require that an entity precisely measure and disclose the cumulative effect of every aspect of the adoption of the amendments to Topic 932 in this proposed Update on reserve quantities or the standardized measure for discounted future net cash flows? Please describe any operational or technical challenges with providing a “cumulative-effect” disclosure.

BP supports the Board’s decision not to require that an entity precisely measure and disclose the cumulative effect of every aspect of the adoption of the proposed amendments to Topic 932 on reserve quantities or the standardized measure of discounted future net cash flows. We do not believe that it would be practical to determine this effect without significant additional work for our technical and finance teams, on top of the additional effort required to implement the Commission’s new rules, and we do not believe that such disclosure would be of value to investors. Our view is that material changes in proved reserves arising from the implementation of the new rules should be discussed in the Management Discussion and Analysis, focusing on any major bookings or significant increases in bookings enabled by the inclusion of unconventional resources or reliable technologies.
APPENDIX II – Proposal for revised wording on cost assumptions

932-235-50-31 (b)
Future development and production costs. These costs shall be computed by estimating the expenditures to be incurred in developing and producing the proved oil and gas reserves at the end of the year, based on year-end costs cost assumptions which are consistent with and assuming a continuation of existing economic conditions. If estimated development expenditures are significant, they shall be presented separately from estimated production costs.

932-235-50-35
In computing the amounts under each of the above categories, the effect of changes in prices and costs shall be computed before the effects of changes in quantities. As a result, changes in quantities shall be stated at prices and costs used in estimating proved oil and gas reserves and year-end costs. The change in computed income taxes shall reflect the effect of income taxes incurred during the period as well as the change in future income tax expenses. Therefore, all changes except income taxes s