Dear Ms. Gosper:

ConocoPhillips appreciates the opportunity to comment on the Financial Accounting Standards Board (FASB) Proposed Accounting Standards Update (ASU), Simplifying the Equity Method of Accounting (the Exposure Draft). ConocoPhillips is the world’s largest independent exploration and production company, based on proved reserves and production of liquids and natural gas. Headquartered in Houston, Texas, ConocoPhillips has approximately 18,100 employees worldwide and our global operations involve the exploration, production, transportation, and marketing of crude oil, bitumen, natural gas, liquefied natural gas, and natural gas liquids in 25 countries. As of December 31, 2014, ConocoPhillips had approximately $117 billion of assets and $56 billion of revenues. In addition, ConocoPhillips has acquired numerous equity ownership interests in other companies and certain of those interests are subject to the equity method of accounting. As of December 31, 2014, the carrying amounts of ConocoPhillips’ equity ownership interests subject to the equity method of accounting totaled approximately $23 billion, and the company recognized approximately $3 billion of earnings from those interests during 2014. Accordingly, this Exposure Draft is of critical importance to the company.

We generally support the objectives of the FASB Simplification Initiative and applaud the Board’s ongoing efforts to reduce the cost and complexity of financial accounting and reporting while maintaining and/or improving the usefulness of information provided to financial statement users. Based on our review of the Exposure Draft, the proposed amendments primarily would eliminate requirements under existing applicable accounting standards to separately account for the basis difference of equity method investments and would also eliminate requirements to retrospectively apply the equity method to all previous periods when an investor increases its ownership or otherwise gains significant influence over an investee.

We wish to provide feedback to the Board on certain elements of the Exposure Draft and the following paragraphs summarize our views on the Exposure Draft’s key components.

Elimination of Requirements to Separately Account for Basis Differences

Under existing applicable accounting standards, an investor is required to account for an equity method investment basis difference as if the investee company were a consolidated subsidiary of the investor. To meet this requirement, the investor must first determine the acquisition date fair values of the identifiable assets and assumed liabilities of the investee company pursuant to the guidance contained in FASB Accounting Standards Codification (ASC) Topic No. 805, Business Combinations (ASC 805), even though the investor has not obtained control over the investee company, and then
allocate the basis difference between the cost of its investment and its share of the underlying equity in
the net assets of the investee company to those assets and liabilities. In the event the investee
company meets the definition of a business under ASC 805, any excess of the cost of the investment
over the investor’s proportionate share of the fair value of the investee company’s net assets is
deemed “equity method goodwill.” As the investor recognizes equity method investment earnings in
subsequent periods, it must make certain adjustments to those earnings, as well as to the carrying
amount of the investment, to reflect the impact of the basis differences. We acknowledge these
requirements can be relatively costly and complex to apply; however, we believe the conceptual basis
underpinning the historical requirements (i.e., the notion that an equity method investment is effectively
a “one-line consolidation”) is sound, operational, and reasonably well understood in practice by both
financial statement preparers and users.

We believe the amendments contained in the Exposure Draft that would eliminate the requirements to
separately account for the basis difference of equity method investments represent a significant
reduction in the cost and complexity associated with the initial application of the equity method. While
we are generally supportive of the Board’s efforts to simplify the accounting and financial reporting for
equity method investments, we are concerned the proposals could potentially result in a number of
unintended consequences, including an increase in cost and complexity with respect to the
subsequent measurement of equity method investments, as well as a potential reduction in
comparability and representational faithfulness of the resulting financial information provided to
financial statement users.

The following paragraphs summarize our primary concerns (in a bulleted-list format):

- **Elevated Risks for Other-Than-Temporary Impairments** – It is common for an investor to
  acquire an investment accounted for under the equity method for a purchase price not
equivalent to the investor’s proportionate interest in the net assets of the investee company.
  While the requirement for an investor to determine the acquisition date fair values of the
  identifiable assets and assumed liabilities pursuant to ASC 805 in order to identify equity
  method investment basis differences may be considered a relatively costly and complex
  undertaking, we believe the processes of tracking and accounting for those basis differences,
  which generally require that certain adjustments be made to the amount of equity method
  investment earnings recognized, as well as to the carrying amount of the investment in
  subsequent periods, results in representationally faithful financial accounting and reporting.
  Based on our review of the Exposure Draft, no adjustments would be required for equity
  method investment basis differences in subsequent periods, and consequently, the carrying
  amounts of an investor’s equity method investments would likely be higher, resulting in an
  elevated risk for other-than-temporary impairments in subsequent periods. Many of the equity
  method investments held by our company, as well as other oil and gas industry participants,
  involve investments in companies that own substantial amounts of property, plant, and
  equipment, and the activities, operations, cash flows, and/or fair values of those investee
  companies typically decrease over their respective life cycles. If no adjustments for basis
  differences are required to be made to the carrying amounts of equity method investments, we
  are concerned other-than-temporary impairments would be certain to occur in future periods,
  even in situations where cash flows from the investments exactly match those assumed at the
time of acquisition. Furthermore, under scenarios in which an investor is required to recognize
an other-than-temporary impairment on its equity method investment under existing applicable
accounting standards, followed by the investee company’s recognition of an impairment of its
underlying assets, we believe the amendments contained in the Exposure Draft could
potentially result in an investor effectively recognizing two impairments (i.e., the investor’s
other-than-temporary impairment on its equity method investment as well as its proportionate
share of the investee company’s impairment of the underlying assets recognized as a
component of the periodic equity method investment earnings). Since neither the Exposure
Draft nor the Board’s Financial Instruments projects are expected to significantly revise the
impairment model for equity method investments, we believe potential reductions in cost and
complexity associated with the proposed amendment to eliminate the requirements to
separately account for the basis difference of equity method investments would be offset by
increases to cost and complexity of financial reporting as a result of the expected frequency in which investors would be required to perform other-than-temporary impairment assessments. It is unclear to us whether this consequence is concerning to the Board and/or representative of its intent. In any event, we are troubled that the proposed amendment may potentially result in less representationally faithful financial information being provided to financial statement users, and we believe such information would be less useful to those users.

- **Decreased Comparability in Income Recognition among Investors** — We are also concerned the proposed amendment may potentially result in the comparability of financial performance of investors in the same investee company being compromised. Specifically, we believe the amendments contained in the Exposure Draft would result in a lack of comparability of financial performance among investors in the same investee company. Under certain circumstances, the Exposure Draft could result in an equity method investor holding a noncontrolling interest in an investee company reporting higher earnings from that investee company than the investee company's controlling interest holder. In addition, it does not seem appropriate to us that different investors holding the same equity ownership percentage in an investee company should record the same amount of equity method investment earnings if the investors acquired their respective equity method investments for different purchase price amounts. We believe the resulting financial information provided to financial statement users would be less useful.

- **Challenges to Transparent Statement of Cash Flows Reporting** — Under FASB ASC Topic No. 230, Statement of Cash Flows (ASC 230), an assessment of distributions of cash received from equity method investee companies should be performed to determine the appropriate classification of those distributions in the statement of cash flows. Specifically, a determination must be made with respect to whether the distributions represent a return on the investor's investment versus a return of the investor's investment. Returns on an investor's investment are classified as operating activities while returns of an investor's investment are classified as investing activities in the statement of cash flows. In practice, this assessment has typically been performed by many preparers, including ConocoPhillips, utilizing a "cumulative earnings" approach. Under that approach, all distributions received by an investor are considered to be returns on the investment and classified as operating cash flows unless the cumulative distributions exceed the cumulative equity method investment earnings recognized by the investor. Any excess distributions are considered returns of the investment and are accordingly classified as investing cash flows. We believe application of the proposed amendment would generally result in the recognition of higher equity method investment earnings by the investor. Consequently, we believe distributions that would otherwise be classified as returns of investment under existing applicable accounting standards would likely be classified as returns on investment if the Exposure Draft were ultimately finalized as proposed. We also believe the resulting statement of cash flows presentation could potentially be misleading to financial statement users without additional footnote disclosure and/or explanation. While we observe the Emerging Issues Task Force (EITF) is expected to address statement of cash flows reporting issues associated with distributions received from equity method investee companies (EITF Issue 15-F) and the Board has added a project to its research agenda to improve existing statement of cash flows classification guidance, we are concerned the proposed amendment may result in less transparent financial information being provided to financial statement users, and we believe such information would be less useful to those users.

- **Potential Elimination of "One-Line Consolidation" Model** — We acknowledge certain aspects of the application of the equity method of accounting may be considered relatively costly and complex for certain financial statement preparers. However, the application of the equity method involves longstanding processes and practices which are reasonably well understood by both financial statement preparers and users. Furthermore, we believe the existing requirements that equity method investment basis differences be accounted for as if the investee company were a consolidated subsidiary of the investor have conceptual merit.
However, paragraphs BC8 and BC9 of the Background Information and Basis for Conclusions section of the Exposure Draft indicate the Board does not see a conceptual basis for requiring the application of the equity method of accounting to be aligned with the principles of consolidation. The Board’s rationale expressed in those paragraphs appears, in our opinion, to represent a significant shift in views that may be more appropriately addressed as part of a broad reconsideration of the equity method of accounting, as opposed to a targeted amendment under the FASB Simplification Initiative. In addition, we believe the proposed amendment would potentially result in the creation of a hybrid cost-method-and-consolidation measurement model that may not be intuitive to financial statement preparers and the resulting financial information provided to users would be less useful. We are concerned this hybrid measurement model could potentially result in numerous unintended consequences, as preparers have often applied principles of consolidation by analogy in connection with the application of the equity method. While we support the objectives of the FASB Simplification Initiative and applaud the Board’s ongoing efforts to reduce cost and complexity of financial accounting and reporting while maintaining and/or improving the usefulness of the information provided to financial statement users, we respectfully encourage the Board to consider adding a project to its research agenda that would re-examine the application of the equity method of accounting on a holistic basis, as opposed to issuing simplification-oriented proposals that could potentially have significant unintended consequences.

Given the concerns outlined above, we do not believe the proposed amendments to eliminate the requirements to separately account for the basis difference of equity method investments meet the objective of the FASB Simplification Initiative, and we do not support their ultimate adoption.

Elimination of Requirements to Retrospectively Apply the Equity Method of Accounting to All Previous Periods

Under existing applicable accounting standards, when an investor increases its investment in an investee company or otherwise gains significant influence over the investee company, the investment, current and prior period results of operations, and retained earnings of the investor are required to be retrospectively adjusted on a step-by-step basis as if the equity method has been applied for all previous periods in which the investment has been held by the investor. We acknowledge these requirements can be relatively costly, complex to apply, and the resulting financial information may or may not consistently provide an incremental benefit to financial statement users.

We support the proposed amendments to eliminate the requirements to retrospectively apply the equity method. As such, we believe the amendments would meet the objective of the FASB Simplification Initiative and be helpful to financial statement preparers as well. Furthermore, please note we support these proposed amendments without regard to our views described above with respect to the elimination of the requirement to separately account for basis differences. Accordingly, we do not believe that each of the proposed amendments in the Exposure Draft necessarily have to be issued as final as a single package.

We thank you again for the opportunity to offer our comments on this Exposure Draft, and we hope you find our comments helpful. Please contact Ken Seaman, Assistant Controller, by telephone at (281) 293-8278 or by e-mail at Ken.W.Seaman@conocophillips.com if you have any questions or wish to discuss our comments further.

Sincerely,

Glenda M. Schwarz
Vice President and Controller
ConocoPhillips