

**Shell International**

Ms. Suzanne Q. Bielstein  
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**Re: Comments on the Proposed Principles-Based Approach to U. S. Standard Setting**

Dear Ms. Bielstein:

The Royal Dutch/Shell Group of Companies ("Shell") appreciates the opportunity to comment on the proposal issued on October 21, 2002 by the FASB concerning a principle-based approach to U. S. standard setting. Our financial statements are prepared in accordance with U.S. GAAP. As a company that has for many years dealt with the differences in accounting and reporting standards imposed by the various global markets, we are convinced that a move to a single, principles-based standard would greatly reduce uncertainty about comparability of published accounts, and enhance the transparency of information to the market place. As the world's standard setters work toward this ultimate goal, it is important that they reduce differences along the way and we think that this proposal, while not addressing convergence per se, is an important step forward.

1. Do you support the Board's proposal for a principles-based approach to U.S. standard setting? Will that approach improve the quality and transparency of U.S. financial accounting and reporting?

We support the proposal for a principles-based approach to U.S. standard setting and are convinced that such an approach, over the long term, will improve the quality and transparency of U. S. financial accounting and reporting. As indicated in the proposal, we agree that principle based accounting standards that apply more broadly than the existing standards will be easier to understand and implement and that a "substance over form" approach will assist in producing financial information that is representative of the results and financial position of the preparing enterprise. In addition we think that such approach will assist the FASB and other international standard-setting bodies in reaching their stated commitment of convergence.

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2. Should the Board develop an overall reporting framework as in IAS 1 and, if so, should that framework include a true and fair view override?

IAS 1 provides, in a single standard, guidance for the preparation and presentation of financial statements. It encompasses both the structure of financial reporting and an explanation of various basic underlying concepts such as fair presentation, going concern, accrual basis accounting, consistency, materiality, aggregation, and comparability. Similar guidance is contained in U.S. GAAP but is disbursed among many different sources, including accounting standards, auditing standards, accounting concept statements, and SEC rules. While IAS 1 may seem to some as a statement of the obvious, all too often of late these basic principles seem to be the ones in question. Having a single framework would provide a point of reference that is clear and concise and ultimately very useful to preparers, auditors, standard setters, and enforcement agencies alike. The cost of developing and implementing such a standard would be well worth the benefits received over the long run.

As stated in IAS 1, financial statements should present fairly the financial position, financial performance, and cash flows of an enterprise. Inclusion of a "true and fair override" is necessary if, as in the case of IAS, there is a requirement to apply all standards to be in compliance. Otherwise, some circumstance, unforeseen by the standard setters, could sufficiently distort the financial statements so as to make them unreliable. Similar guidance is found in existing U.S. auditing standards. The application of this override should be extremely rare and adequately disclosed.

As a Group affected by the EU directive on compliance with IAS standards by 2005, we support not only developing this framework within U.S. GAAP but also that both the U.S. and IAS frameworks reach convergence. We also encourage convergence on the related projects on performance reporting currently underway by both standard setters.

3. Under what circumstances should interpretive and implementation guidance be provided under a principles-based approach to U.S. Standard setting? Should the Board be the primary standard setter responsible for providing that guidance?

As with any broad standard-setting framework, interpretive guidance can be beneficial and should be offered when there are emerging or existing widely divergent interpretations of a standard and the guidance will have practical and widespread relevance. Implementation guidance should be offered when a standard addresses areas that are very complex and a new or revised standard will pose a significant risk of misinterpretation or divergent implementation methods that will result in non-comparable information.

While the responsibility for standard setting should rest only with one body to ensure consistency, it is acceptable to have other organizations charged with the responsibility of developing a position on the more specific interpretive issues provided this does not add unnecessary complexity to the process. This organization should be mandated to apply the same principles-based approach as the standard setting body and to rely on whatever framework is developed. Their decisions should be reviewed and approved by the standard setting body. Issues identified as inadequacies in existing standards or the framework should be referred back to the standard setting body for consideration and action.

The recent proposal, as outlined by the Chairman of FASB in his remarks at the Financial Executive International Current Financial Reporting Issues Conference in New York on November 4, 2002, calling for the elimination of the AICPA's AsSEC as a standard setting body and more direct involvement by the FASB in EITF activities, is consistent with our view on this question.

4. Will preparers, auditors, the SEC, investors, creditors, and other users of financial information be able to adjust to a principles-based approach to U. S. standard setting? If not, what needs to be done and by whom?

While each major constituency mentioned above would have its separate concerns and challenges, adjusting to principle-based standards is within reach and the time to move toward this objective has never been more appropriate.

5. What are the benefits and costs (including transition costs) of adopting a principles-based approach to U.S. standard setting? How might those benefits and costs be quantified?

The primary beneficiaries of a principles-based approach would be the investors and the other users of the financial statements. The FASB should look to them for quantification of these benefits. To the extent that the economic position and performance of an entity is fairly and accurately represented based on sound and easy to understand principles, users will benefit and so will the companies in which they choose to invest.

As far as costs are concerned, each company will experience these differently based on the flexibility of their systems, their experience with the more principles-based approach of other countries, their use of products and structures designed to circumnavigate standards, and the actual changes made to the standards/requirements themselves. There are costs associated with the study of the change and the redefinition of accounting policy. There will be costs associated with communicating and training financial professionals in these new policies and costs associated with educating constituents. There will be an impact on the presentation of reported financial position and results.

6. What other factors should the Board consider in assessing the extent to which it should adopt a principles-based approach to U. S. standard setting?

As is evident in a number of our remarks, we believe that moving to principle-based standards would be a major step toward allowing differences between U.S. GAAP and IAS to be resolved more easily to the satisfaction of both standard setting bodies. We are of the opinion that convergence is absolutely necessary to facilitate investor reliance and comfort with the financial statements of companies who participate in global capital markets.

Shell also appreciates the opportunity to participate in the roundtable discussion on this subject scheduled for December 16, 2002. Ms. Lessie Sutherland, our U. S. based Accounting Policy manager will be attending.

Yours sincerely  
Shell International Limited

A handwritten signature in black ink, appearing to read "Tim Morrison". The signature is fluid and cursive, with a large, sweeping flourish at the end.

Tim Morrison  
Group Controller