

February 19, 2008

U.S. Securities and Exchange Commission
Attn: Nancy M. Morris, Secretary
100 F Street, NE
Washington, DC 20549-1090

Re: **File Number S7-29-07**, *Concept Release on Possible Revisions to the Disclosure Requirements Relating to Oil and Gas Reserves*

Dear Ms. Morris:

Deloitte supports the Commission's initiative to reconsider its oil and gas disclosure requirements and is pleased to respond to the Commission's *Concept Release on Possible Revisions to the Disclosure Requirements Relating to Oil and Gas Reserves* (the "Release"). Rather than respond to each individual element of the Release, many of which are beyond the scope of our professional practice, we wish to take this opportunity to provide the Commission with our perspectives on this initiative.

Disclosures Should Be Based on a Single Set of Definitions

The foundation for disclosures of oil and gas reserves should be a single, commonly understood definition of terms. Different definitions for the same term can result in misunderstandings, differing interpretations, and diversity in application, which diminish the value of information. We understand that the Petroleum Resource Management System (PRMS) encompasses a commonly understood definitional framework, which was jointly developed by the Society of Petroleum Engineers (SPE), the World Petroleum Council, the American Association of Petroleum Geologists, and the Society of Petroleum Evaluation Engineers. Further, we understand that these organizations are "committed to maintain and update these best practice resource assessment guidelines as technology and commercial conditions continue to evolve."¹

We recommend that in its reassessment of the disclosures of oil and gas reserves, the Commission consider using a single definitional framework, such as the one embodied in the PRMS framework, instead of the current environment of multiple definitions for common terms. The PRMS definitions are widely used and well-understood in the industry. If the Commission believes there are inherent shortcomings in the PRMS framework, the

¹ SPE Press Release, April 11, 2007, "SPE Approves New Petroleum Resources Management System."

Commission should work with other interested parties, including the professional organizations that developed the PRMS, as well as other accounting rule-makers, such as the FASB, the IASB, and the CSA (Canadian Securities Administrators) to resolve any issues prior to its adoption.

Consider Revising and Supplementing Current Standardized Measure Disclosures

A new or improved definitional framework for oil and gas reserves and values may create opportunities to implement expanded disclosures that may be more appropriate in today's environment. For example, the PRMS includes definitions of proved and probable reserves. Our experience indicates that users will find standardized measure disclosures — relating to both proved and probable reserves — to be informative and not misleading. Users may also find helpful a disclosure format similar to that in FASB Statement No. 157, *Fair Value Measurements*, that highlights the relative reliability of proved versus probable reserves.

The standardized assumptions used in the current disclosures provide a high level of consistency among companies. However, because the resulting disclosures do not reflect current market conditions, they may be of limited benefit to users. We recommend that in addition to the currently required standardized measure disclosures, the Commission require companies to disclose oil and gas reserve quantities, related discounted future net cash flows, and changes therein estimated using economic assumptions that the entity's management uses for planning and budgeting (which we would expect to be consistent with market participant assumptions). These disclosures could also be in a format that highlights the reliability of the reserves estimates (i.e., proved versus probable).

We understand that estimating reserve quantities and discounted future net cash flows is a complex process. However, we believe that financial statement user communities understand the imprecision inherent in certain estimates, and with robust disclosures about the underlying methods and assumptions used, would find merit in the disclosure of these estimates. In addition, the Commission should consider including a sensitivity analysis quantifying the potential effects on the estimates of reserve quantities and discounted future net cash flows resulting from changes in management's assumptions. Our experience indicates that the standardized measure disclosures, together with disclosures based on management's assumptions and related sensitivity analysis, may provide investors with sufficient information about reserves. However, the Commission should solicit feedback on any additional disclosures that are ultimately proposed, especially from users of oil and gas financial statements.

Effect on Other Guidance

We acknowledge that changes to oil and gas reserve definitions and disclosure requirements would likely affect other authoritative guidance, and some of the ramifications could be far reaching. Authoritative guidance on accounting and financial reporting of oil and gas production activities that would likely be affected includes FASB Statements No. 19, *Financial Accounting and Reporting by Oil and Gas Producing Companies*, No. 69,

Disclosures About Oil and Gas Producing Activities, and No. 144, *Accounting for the Impairment and Disposal of Long-Lived Assets*; SEC Regulation S-X, Rule 4-10, "Financial Accounting and Reporting for Oil and Gas Producing Activities Pursuant to the Federal Securities Laws and the Energy Policy and Conservation Act of 1975"; and SEC Staff Accounting Bulletins included in Topic 12, "Oil and Gas Producing Activities." Authoritative guidance on auditing financial statements including oil and gas production activities that would likely be affected includes procedures prescribed by AICPA *Professional Standards*, AU Section 558, "Required Supplementary Information," and Section 9558, "Required Supplementary Information: Auditing Interpretations of Section 558," as well as the AICPA Audit and Accounting Guide, *Entities With Oil and Gas Producing Activities*. While a final release may create a need for significant changes to other authoritative guidance, we do not believe this should dissuade the Commission from improving the reserve definitions and disclosures. We look forward to working with the Commission as it proceeds with this initiative.

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We would be pleased to discuss these comments with you at your convenience. If you have any questions, please contact Jeff Montag at (713) 982-2519 or Lisa Delfini at (203) 761-3271.

Very truly yours,

/s/ Deloitte & Touche LLP

cc: Chairman Christopher Cox
Commissioner Paul S. Atkins
Commissioner Kathleen L. Casey
Conrad W. Hewitt, Chief Accountant
John W. White, Director, Division of Corporation Finance