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Ms. Nancy M. Morris
Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

File Reference: Release Nos. 33-8870; 34-56945; File No. S7-29-07
Concept Release on Possible Revisions to the Disclosure
Requirements Relating to Oil and Gas Reserves

Dear Ms. Morris:

We appreciate the opportunity to comment on the Concept Release on Possible Revisions to the Disclosure Requirements Relating to Oil and Gas Reserves. Fitch Ratings agrees that since the current guidelines for the industry are close to thirty years old, it is appropriate to review and update the requirements so that they better reflect technological advancements over the period.

Overview

Fitch Ratings (Fitch) is a leading global rating agency committed to providing the world's credit markets with independent, timely and prospective credit opinions. Fitch's corporate finance ratings make use of both qualitative and quantitative analyses to assess the business and financial risks of fixed-income issuers. Therefore, Fitch directly relies on the financial statements and that reliance places us in an informed position to comment on information we believe is useful and crucial in the credit evaluation process, which is a critical component of efficient capital markets.

Summary

Fitch evaluates companies from a credit perspective and therefore is focused on the reliability and volatility of future cash flows, market sensitivity and collateral values. Proved reserves currently classified as 1P are more reliable and are therefore significant from a creditors' perspective, whereas, those reserves classified as 2P or 3P at this time are not and thus would have little to no current impact on our ultimate rating of a company's debt. Expanded disclosures would be helpful from our perspective as the information, if presented in a standardized manner, may be utilized in Fitch's rating methodology.

The question of rules or principles is unusual here since this does not refer to accounting for transactions but rather to a disclosure framework. Generally, Fitch believes that principles are preferable but that it is equally important to have strong disclosure requirements surrounding the use of any principles.

Fitch believes that consistency is critical to its analysis- both between issuers as well as across periods for the same issuer. Any changes to the current disclosure framework should provide for consistent application- both going forward <u>and</u> with prior period data.

<u>Principles vs. Rules</u>

Fitch believes that principles should be accompanied by detailed disclosure requirements that outline the data being conveyed, the assumptions used to gather that data and the factors that could influence those assumptions. In this context, such disclosure requirements should encompass the quantitative as well as qualitative assumptions and factors critical to the disclosures. As the types of disclosures contemplated cover various levels of probability, numeric precision is not assured, and thus sensitivity analysis as to a range of potential outcomes would be of import as well.

In reviewing the history of the disclosure framework for companies in the extractive industries now in place, it appears that the current rules have been modified and narrowed through various interpretations by the Staff. Fitch believes that whatever disclosures are required, the parameters that define what may or may not be acceptable should be part of the standard and thus fully transparent to the user of the financial information.

<u>Types of Disclosures</u>

Since our credit analysis is currently focused on proved reserves, Fitch feels strongly that they continue to be separately disclosed based on a consistent definition. We do not object to including other reserve information in filings and note that such information is often available to investors through industry presentations and the like. The standardization of such additional disclosures would be a positive from an investor perspective.

Fitch believes that the Commission should set the classification framework, and that such a framework along with expanded disclosures will provide users with sufficient information to make their own judgments based on fixed definitions. We do not believe that definitions that change with every change in the Society of Petroleum Engineers-

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Petroleum Resources Management System will facilitate consistent application of disclosures across time and issuer.

Fitch believes that the current pricing framework should be modified and based on an average (such as trailing twelve month) as opposed to the current point in time method.

There are a variety of other specific disclosures that Fitch believes would be useful in performing our credit analysis:

- detailed reserves by location or field;
- pricing and cost assumptions on 1P and 2P reserves;
- listing of 2P and 3P reserves;
- proven undeveloped reserve (PUD) aging;
- reserves from tar sands and oil shales; and
- sensitivity analysis (for example, the impact of a $1.00 change in price per barrel of oil or MCF of gas on reserve disclosures).

Additionally, we would like to highlight that Fitch believes that these disclosure requirements should be required for <u>all</u> registrants, including those foreign private issuers that file their financial statements with the Commission utilizing International Financial Reporting Standards as adopted by the International Accounting Standards Board.

<u>Third Party Evaluation</u>

The move to a principle based disclosure framework would be enhanced by the use of third party evaluation of the estimates provided by management. Fitch believes that such a requirement would increase investor confidence in the disclosures.

We appreciate the Commission's consideration of our comments and would be happy to discuss them at any time with the Commission or members of its Staff.

Yours sincerely,

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