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February 19, 2008

Ms. Nancy M. Morris
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 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,

The Center for Audit Quality (CAQ or the Center) is an autonomous public policy organization serving investors, public company auditors and the capital markets and is affiliated with the American Institute of Certified Public Accountants. The CAQ's mission is to foster confidence in the audit process and aid investors and the markets by advancing constructive suggestions for change rooted in the profession's core values of integrity, objectivity, honesty and trust. Based in Washington, D.C., the CAQ consists of approximately 800 member firms that audit or are interested in auditing public companies.

We appreciate the opportunity to respond to the Securities and Exchange Commission's (SEC or Commission) *Concept Release on Possible Revisions to the Disclosure Requirements Relating to Oil and Gas Reserves* (Concept Release) and strongly support the Commission's effort to reassess the current disclosure requirements relating to oil and gas reserves by soliciting views from interested parties. Given that a majority of the questions raised in the Concept Release pertain to technical engineering topics that are outside the expertise of our member firms, we have not responded to each

question in the Concept Release. We have noted during audits of oil and gas companies, however, that disclosures of oil and gas reserves that exclude “non-traditional” oil and gas resources may not be providing investors with a complete picture of how management analyzes its reserves. In addition, the definition of proved reserves has a direct impact on amounts in the financial statements of both public and non-public oil and gas companies. Furthermore, changes in reserve definitions and disclosure requirements might affect the nature and extent of procedures performed by auditors in accordance with PCAOB standards related to supplemental unaudited information currently disclosed by oil and gas companies. Therefore, we provide the following observations for the Commission’s consideration.

Disclosure of Non-Traditional Resources

Currently the Commission's rules prohibit the characterization of proved reserves from "non-traditional" sources, such as those from oil shale and tar sands, as oil and gas reserves. We note that some oil and gas companies have significant amounts of capitalized costs related to non-traditional resources and that such reserve information is commonly used by the management of oil and gas companies for a variety of purposes. We encourage the Commission to reconsider its position prohibiting disclosure of these resources as oil and gas reserves. In our experience, companies do not draw a distinction operationally between traditional and non-traditional resources and a change to allow the disclosure of non-traditional proved reserves as oil and gas reserves would help investors recognize the significance of these resources and understand the role of non-traditional reserves in relation to traditional oil and gas reserves.

Accounting Implications

While the Concept Release pertains specifically to the disclosure requirements for oil and gas reserves, we note a number of areas that could impact the accounting for oil and gas activities. The following accounting-related information is provided to assist the Commission in assessing how the alternatives being considered might impact registrants' financial statements.

Application of Statement of Financial Accounting Standards No. (FAS) 154, *Accounting Changes and Error Corrections*. Revision to the definition of proved reserves would affect the unit-of-production amortization rate for many oil and gas companies. While FAS 19 paragraph 30 is clear that reserve “revisions” made in the normal course are considered changes in accounting estimates, we believe there could be different views in the preparer community concerning whether a change to the definition of proved reserves is a change in accounting principle or a change in estimate effected by a change in accounting principle under FAS 154. As the definition of proved reserves in FAS 19 is

taken from the SEC definition, we recommend that the SEC staff coordinate with the FASB to provide specific transition requirements.

Geological and Geophysical Expenditures. Based on the Concept Release it appears that the Commission may consider allowing companies to use new technologies such as 3-D seismic interpretation to demonstrate the existence of proved undeveloped reserves. If this change is made, the impact of this change on the required immediate expensing of this type of geological and geophysical expenditure under FAS 19 should be reconsidered. We recommend that the SEC staff coordinate with the FASB to address the possible revision to this guidance.

Full Cost Accounting Rules. The Commission should also consider the impact that potential changes to the current oil and gas reserves disclosure requirements might have on the full cost accounting rules. In particular, any changes related to the definition of proved reserves or the primary inputs to the standardized measure (for example, static operating conditions, year end prices and costs, and the 10% discount rate) could potentially impact the full cost ceiling limitation as defined in Item A of Rule 4-10(c)(4)(i) of Regulation S-X.

IFRS Convergence. Finally, the Commission should consider convergence with IFRS in connection with its rulemaking; including the Commission's recent elimination of the requirement for foreign private issuers to reconcile their financial statements to US GAAP. Given that IFRS does not require the use of a particular definition of proved reserves, the elimination of the US GAAP reconciliation now allows diversity in how IFRS companies report proved reserves in SEC filings. We encourage the Commission to pursue the possibility of convergence in this area through discussions with the IASB.

Audit Implications

The requirements for auditors in relation to the supplemental information required by FAS 69 are prescribed in the Codification of Statements on Auditing Standards AU §§ 558 and 9558, which were incorporated into PCAOB Rule 3200T. As currently written, these procedures are predicated on the assumption that the supplemental information is prepared in accordance with "prescribed or applicable guidelines." The Commission should consider how the alternatives discussed in the Concept Release may impact PCAOB Rule 3200T, and coordinate with the PCAOB in that area.

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We appreciate the opportunity to comment on the Concept Release and would welcome the opportunity to respond to any questions you may have regarding any of our comments and recommendations.

Sincerely,



Cynthia M. Fornelli
Executive Director
Center for Audit Quality

cc: SEC
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