



Letter of Comment No: 7  
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FSP No. FAS 19-a: Accounting for Suspended Well Costs

Dear Mr. Smith:

The Royal Dutch/Shell Group of Companies (Shell) wishes to express its views on the Proposed FASB Staff Position No. FAS 19-a, entitled *Accounting for Suspended Well Costs* (FSP FAS 19-a).

In general, we support the efforts of the FASB to recognize the evolution of the oil and gas industry over the past two decades by proposing an amendment to FASB Statement No. 19 *Financial Accounting and Reporting by Oil and Gas Producing Companies*. The industry has experienced technological advancements and a changing environment in which we must operate to find, develop and produce reserves. The proposed FASB Staff Position paper is a positive step in solving the current disconnect between the business environment and the prescribed accounting treatment.

Shell believes that the fundamental issue with the current guidance in FASB Statement No. 19 lies in the one-year requirement in paragraph 31.b. We believe that the proposed FSP has gone beyond this issue and is fundamentally changing the requirements in paragraphs 31.a. and paragraph 34 as well. We do not believe that these requirements are at issue in the industry application of FASB Statement No. 19 and would, therefore, advocate changing the proposed staff position in the following ways to allow closer alignment with the current conditions in paragraph 31.a. and 34.

In revised FAS 19 paragraph 31 – we suggest the wording in the last sentence be changed to “...if the well has found a sufficient quantity of reserves to justify its completion as a producing well or if the enterprise is making progress assessing the reserves and the economic and operating viability of the project.”

Shell suggests that the following be added to the end of paragraph 32, item g. “Existence of firm plans, timetables, or contractual commitments; which may include seismic or drilling of additional exploratory wells in the near future.” We believe that the condition for an exploratory well to remain capitalized under the existing FAS 19, paragraph 31.a.ii., “drilling of the additional exploratory wells is under way or firmly planned for the near future”, should not be removed.

Similarly Shell believes that the wording in revised FAS 19 paragraph 34, “The planning of activities for the near future in the absence of other actual activities is not sufficient to continue the capitalization of exploratory well or exploratory-type stratigraphic well costs” is in conflict with FAS 19, paragraph 31.a.ii., and should be deleted.

Regarding disclosures, Shell agrees with the API Accounting Committee response that, “Disclosing the information required by paragraph 10 on a quarterly basis would not provide significantly more useful information than if it was required only annually, but would be unnecessarily costly and burdensome.” We also support the API Accounting Committee position with regard to Paragraph 10 (b) and further suggest that the required aging of the exploratory well costs should also be removed, as it does not provide useful information. We support the position that the requirements in Paragraph 10 (c) are forward looking and should not be required in the notes to the financial statements. Overall, Shell suggests the disclosure requirements be revisited to address the additional information requested and its usefulness in light of the reporting burden it places upon the industry.

Again, we appreciate the opportunities to express our views and would welcome any questions you may have concerning them. Please contact either me at the above address and phone number or Lessie Sutherland, our US-based accounting research manager, at (713) 241- 9329 if you would like to discuss any aspect of this response.

Sincerely,

Bob Deere  
Deputy Group Controller