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Mr. Lawrence W. Smith, Director
Technical Application and Implementation Activities
Financial Accounting Standards Board
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Proposed FASB Staff Position No. FAS 19-a, Accounting for Suspended Well Costs

Dear Mr. Smith:

We appreciate the opportunity to comment on the exposure draft of the proposed FASB Staff Position, "Accounting for Suspended Well Costs." We support the staff's efforts to address questions that have arisen regarding the capitalization of exploratory well costs pending the determination of proved reserves and we agree with the proposed amendment to FASB Statement No. 19, *Financial Accounting and Reporting by Oil and Gas Producing Companies*. However, as discussed below, we recommend certain changes to the staff's proposed disclosure requirements and suggest certain other clarifications of the proposed FSP.

Paragraph 10(a) of the proposed FSP would require an enterprise to disclose the amount of capitalized exploratory well costs at each period end that are pending the determination of proved reserves and the period-to-period changes in capitalized exploratory well costs. These proposed disclosures would include all exploratory well costs incurred during the period, not just those suspended well costs that are the subject of paragraphs 31 through 34 of Statement 19. Therefore, we question the usefulness of the period-to-period roll-forward of such costs. In addition, we question the usefulness of disclosures for comparative periods because the current period disclosures would capture aging and other relevant information.

We believe that the disclosures should provide the financial statement user with information about those well costs that are the subject of paragraphs 31 through 34 of Statement 19. Accordingly, we believe the disclosure should focus on the aging of such costs, by project, with a discussion of the status and timing of each significant project, as currently proposed in paragraphs 10(b) and 10(c).

Furthermore, we believe that the aging disclosure should be categorized using criteria that will convey the uncertainty and risk of the associated reserves. For example, those

categories could include (i) properties requiring major capital expenditures, (ii) properties requiring drilling of additional exploratory-type stratigraghic test wells, and (iii) properties not requiring additional capital expenditures or additional drilling that have been suspended for more than one year after completion of drilling.

In a letter dated February 11, 2005, Carol Stacey, Chief Accountant of the Division of Corporation Finance of the SEC discussed disclosures that the SEC staff expects companies to make for periods prior to the finalization of the proposed FSP. In finalizing the FSP, the Board should consider the potential intersection between the FSP and the issues raised in that letter.

The Board should clarify whether the disclosures specified in paragraphs 10 and 12 of the proposed FSP apply to all interim periods on an ongoing basis or only to the interim period of initial adoption with annual reporting thereafter.

The proposed FSP would add new paragraph 31A to Statement 19. As proposed, the first sentence of that paragraph includes repetitive criteria. It states that if either of the criteria in paragraph 31 is not met (the capitalized drilling costs shall continue to be capitalized if the well has found a sufficient quantity of reserves to justify its completion as a producing well *and* the enterprise is making sufficient progress assessing the reserves and the economic and operating viability of the project) <u>or if the enterprise obtains information that raises substantial doubt about the economic or operational viability of the project</u>, the exploratory well or exploratory-type stratigraphic test well shall be assumed to be impaired and its costs, net of any salvage value, shall be charged to expense. [Emphasis added] Information that raises substantial doubt about the economic or operational viability of a project would indicate that the well does not have a sufficient quantity of reserves to justify its completion as a producing well.

Finally, we note that some of the proposed disclosures focus on the number of exploratory *wells* while others focus on the number of exploratory *projects*. As a single project may have several wells, disclosing of the number of wells may not be relevant or cost-effective. Many exploratory projects are managed on a project-by-project basis rather than on a well-by-well basis, so disclosure on a project basis may be more meaningful.

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In addition to the specific comments related to the proposed amendment to Statement 19 and the proposed disclosure requirements described above, we believe that the Board should clarify its due process procedures for amending and interpreting existing

Statements of Financial Accounting Standards and other authoritative literature. We believe that it would be helpful to the FASB's constituents for the Board to clarify its process for determining whether amendments and interpretations of existing standards should be addressed through an FASB Statement, Interpretation, FASB Staff Position, or an issue discussed by the Emerging Issues Task Force.

If you have questions about our comments or wish to discuss any of the matters addressed herein, please contact Mark Bielstein at (212) 909-5419 or Paul Munter at (212) 909-5567.

Sincerely,

KPMG LLP