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October 16, 2009

Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, Connecticut 06856-5116

**RE: Proposed Accounting Standards Update, “Extractive Industries-Oil and Gas (Topic 932), Oil and Gas Reserve Estimation and Disclosures” (File Reference No. 1730-100)**

Dear Technical Director:

We appreciate the opportunity to respond to the proposed Accounting Standards Update, “Extractive Industries-Oil and Gas (Topic 932), Oil and Gas Reserve Estimation and Disclosures” (the “proposed Update”). We support the Board’s efforts to align the oil and gas disclosure requirements with the requirements in the Securities and Exchange Commission’s final rule, “Modernization of the Oil and Gas Reporting Requirements” issued on December 31, 2008 (the “Final Rule”). We agree with the Board’s stated objective to provide investors with a more meaningful and comprehensive understanding of oil and gas reserves, consistent with the objective of the Final Rule. However, we have noted certain points that we believe require clarification.

The Appendix to this letter includes our recommendations for revisions and clarifications that the Board should consider making to the proposed Update. The Appendix to this letter also includes explanation of our views specific to issues and questions for which the Board requested comment in the proposed Update.

If you have any questions about our comments or wish to discuss any of the matters addressed herein, please contact Mark Bielstein at (212) 909-5419 or Robert Hilbert at (212) 909-5303.

Sincerely,

**KPMG LLP**

cc: James Kroeker, Acting Chief Accountant, Office of Chief Accountant, SEC



## Appendix

### **Proposed Accounting Standards Update, “Extractive Industries-Oil and Gas (Topic 932), Oil and Gas Reserve Estimation and Disclosures” (File Reference No. 1730-100)**

#### **Responses to the questions set out in the proposed Update**

*Question 1: Do you agree with the Board’s decision to amend Topic 932 to clarify that equity method investments must be considered in determining whether an entity has significant oil and gas producing activities? Please describe any challenges that would be encountered in meeting this requirement.*

We agree with the Board’s decision to amend Topic 932 to state that equity method investments must be considered in determining whether an entity has significant oil and gas producing activities. We believe this amendment to the Topic 932 guidance on significance is consistent with existing guidance in FASB Accounting Standards Codification (ASC) 280, *Segment Reporting*, regarding reportable operating segments.

As a potential unintended consequence, the inclusion of equity method investee reserves in the determination of significance may require public companies that previously concluded that detailed disclosures about oil and gas activities were not required, to provide such disclosure in their annual reports for the year ending December 31, 2009. The disclosures required by Topic 932 are extensive and complex in nature and it may be difficult for entities which were not previously required to make such disclosures to do so by the effective date in the proposed Update. Assuming that the effective date of the proposed disclosures is not deferred, we recommend that the Board consider special transition provisions for companies that would be required to provide detailed information about oil and gas activities for the first time as a result of including equity method investee reserves in their significance calculation.

*Question 2: Do you agree with the Board’s decision to require that an entity disclose the same level of detail about equity method investments with significant oil and gas producing activities as it does for its consolidated subsidiaries? Please describe any challenges that would be encountered in meeting this additional requirement. Should the Board consider establishing a threshold below which the entity would not be required to provide oil and gas disclosures about its equity method investment with significant oil and gas producing activities? If so, what should be the basis of that threshold?*

We do not agree with the Board’s decision to require that an entity disclose the same level of detail about equity method investments with significant oil and gas producing activities as it does for consolidated subsidiaries. We believe that the proposed level of detail disclosures about equity method investees is inconsistent with the Securities and Exchange Commission’s final rule, “Modernization of the Oil and Gas Reporting Requirements” issued on December 31, 2008 (the “Final Rule”).



FASB Technical Director  
Financial Accounting Standards Board  
October 16, 2009  
Page 2

If adopted as proposed, we believe some equity method investors may have significant challenges in meeting this requirement. Because equity method investors do not control the investee, it may be difficult for the investor to obtain the necessary information to prepare the disclosures. Further, equity method investees may not have systems and processes in place to provide the required level of detailed reserve information to investors on a timely basis. Majority shareholders of the equity method investees might object to potential investments in systems and resources which may be required to provide the required information to minority investors subject to the proposed Update. Since the proposed effective date is in the near future, equity method investors may not be able to obtain the information necessary to make these disclosures in the near term.

For those entities with the ability to provide these disclosures, we would support optional disclosure of equity method investee information at the same level of detail as is required for consolidated subsidiaries.

*Question 3: Should the Board consider permitting an entity to present the equity method investment quantity and amount detail in total rather than by geographic area and product (if applicable)? See the appendix of this proposed Update for an example of this alternative presentation for reserve quantities.*

As noted in our response to Question 2 above, we believe that the proposed level of detail disclosures about equity method investees is inconsistent with the Final Rule. Notwithstanding the above, we generally agree that providing entities the option to disclose the equity method investee's quantity and amount details in total is appropriate. For those entities that have the ability to make disclosures by product and geographical area, such a disclosure may be useful and therefore permitted.

*Question 4: Do you agree with the Board's decision to permit an entity to present a total of consolidated entity and the entity's share of equity method quantities of reserves and financial statement amounts? Does the total for the financial statement amounts provide decision-useful information even though it would not agree to the corresponding financial statement line items of the entity, since equity method investments are presented net within a single line item of the financial statements?*

We agree with the Board's decision to provide an option for entities to present a total for the reporting entity's reserves and its share of equity method quantities of reserves. However, we do not agree with the Board's decision to permit entities to present a total of the reporting entity's and its share of equity method investee's financial statement amounts, as this presentation would effectively result in proportionate consolidation of the balance sheets of the reporting entity and its equity method investees. We believe that such disclosure is inconsistent with existing guidance in Topic 323.



FASB Technical Director  
Financial Accounting Standards Board  
October 16, 2009  
Page 3

*Question 5: The Board decided that if the effect is significant and practical to estimate, an entity should disclose the effect (or portions of the effect) of the amendments to Topic 932 in this proposed Update on individual line items of the “roll-forward” disclosures of reserve quantity and the standardized measure for discounted cash flows. Do you agree with the Board’s decision not to require that an entity precisely measure and disclose the cumulative effect of every aspect of the adoption of the amendments to Topic 932 in this proposed Update on reserve quantities or the standardized measure for discounted future cash flows? Please describe any operational or technical challenges with providing a “cumulative-effect” disclosure.*

We agree with the Board’s decision not to require an entity to precisely measure and disclose the cumulative effect of every aspect of the adoption of the proposed Update. However, we believe further clarification of the cumulative effect disclosures should be provided to avoid confusion and inconsistencies between reporting entities. In addition, we believe the Board should provide example transition disclosures in an additional illustration in order to clarify the manner in which these cumulative effect adjustments should be disclosed. Such an illustration would help to clarify the transition provisions and provide for consistent transition disclosures across reporting entities.

### **Effective Date and Transition**

Paragraph 932-10-65-01(a) in the proposed Update states: “The pending content that links to this paragraph shall be effective for annual reporting periods ending on or after December 31, 2009” and that “An entity shall apply the pending content that links to this paragraph prospectively as a change in estimate.” Paragraph 932-10-65-01(c) indicates that “An entity shall include the effect of applying the pending content in paragraph 932-10-05-2(d) in each of the amounts and quantities disclosed in accordance with this Topic.” It is unclear whether the effect of the change in the reserve measurements required by the final standard should be presented as an adjustment to the beginning of the year (e.g. January 1, 2009 for calendar year companies) or the end of the year (e.g. December 31, 2009). Whether the effect of the change is determined as of the beginning or end of the year would impact all of the individual line items in the rollforward of the Standardized Measure of Oil and Gas Reserves. We recommend that the Board revise the language in paragraph 932-10-65-01 to clarify how the effect of the change should be presented in the disclosure requirements in the proposed Update.

In addition, if the Board decides to adopt the proposed equity method investee disclosures as currently written, we recommend the Board consider a deferral of the effective date for those disclosures. As noted in our response to Question 2 above, because there could be implementation issues and difficulties in obtaining the necessary information associated with



FASB Technical Director  
Financial Accounting Standards Board  
October 16, 2009  
Page 4

providing additional disclosures for equity method investees, we believe deferring the effective date for these disclosures would allow entities sufficient time to address these issues.

## **Other Matters**

### *Estimated Expenditures*

Paragraph 932-235-50-31(b) states, in part: “These costs shall be computed by estimating the expenditures to be incurred ... based on year-end costs and assuming the continuation of existing economic conditions.” We believe that the use of year-end costs in estimating expenditures to be incurred is inconsistent with the method that proved oil and gas reserves are priced for future revenue estimates, which are based on the average price during the 12 month period before the ending date of the period covered by the report. To appropriately present the reserve quantities required to be disclosed, we believe there should be consistency between the economic environments used to determine the future estimated revenues and the future estimated costs associated with those reserves. Therefore, the estimates of expenditures should be based on average costs during the 12 month period before the ending date of the period covered by the report. Paragraph 932-235-50-31(b), paragraph 932-235-50-35, and the definition of proved oil and gas reserves in the proposed Update should be revised to require that estimated costs to be incurred be based on average costs during the 12 month period before the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month cost for each month within such period.

### *Exclusion of Hedging Contracts from Average Prices Calculation*

We believe that the definition of proved oil and gas reserves in the proposed Update be modified as follows:

The price shall be the average price during the 12-month period before the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual agreements with customers, excluding escalations based upon future conditions.

We believe this change will clarify that hedging contracts should not be included in the computation of average prices.

### *Geographic Area Disclosure Threshold*

Paragraph 932-235-50-6 states, in part: “The quantity of reserves is not the only factor that shall be considered in determining whether reserves are significant. (An entity should consider all facts and circumstances in determining whether reserves are significant.) However, at a minimum, net quantities of reserves shall be presented in the aggregate and separately by geographic area containing 15 percent or more of an entity’s proved reserves, expressed on an oil-equivalent barrel basis.” We believe the requirement to consider factors other than the



FASB Technical Director  
Financial Accounting Standards Board  
October 16, 2009  
Page 5

quantity of reserves, as well as the characterization of the 15 percent threshold as a “minimum” in determining the required geographic area reserve disclosures is not consistent with the Final Rule. Specifically, Section 229.1202 (a)(2) of the Final Rule states, in part: “Disclose, in the aggregate and by geographic area and for each country containing 15% or more of the registrant’s proved reserves ...” We believe the difference between how the proposed Update and the Final Rule would define significance for geographic area disclosures may result in circumstances where an entity may be required to disclose reserve information for geographical areas in its financial statements inconsistent with the geographical information disclosed in its SEC filings. We recommend that the Board modify the description of significance in paragraph 932-235-50-6 of the proposed Update to be consistent with the Final Rule.