

October 13, 2009

Technical Director – File Reference No. 1730-100
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Via Electronic Mail: director@fasb.org, File Reference No. 1730-100

Re: *Proposed Accounting Standards Update, Extractive Industries--Oil and Gas (Topic 932)*

Dear Sir/Madam:

Standard & Poor's Ratings Services appreciates the opportunity to provide the Financial Accounting Standards Board (FASB or the Board) with our comments on the Board's Proposed Accounting Standards Update, "Extractive Industries--Oil and Gas (Topic 932)" (Proposed Accounting Standards Update). The views expressed in this letter represent those of Standard & Poor's Ratings Services and do not address, nor do we intend them to address, the views of any other subsidiary or division of Standard & Poor's Financial Services LLC or The McGraw-Hill Companies. Further, we intend our comments to address the analytical needs and expectations of our credit analysts.

We supported the SEC's modernization of oil and gas reserve reporting requirements, and we support the Board's objective to align GAAP reporting and disclosure requirements with the SEC's final rule, "Modernization of the Oil and Gas Reporting Requirements." (See "Standard & Poor's Response to the SEC's Proposed Modernization of Oil and Gas Reporting Requirements," published Sept. 8, 2008, on RatingsDirect.) We also encourage the Board to consider several improvements to disclosures that would help analysts and other users of financial statements better understand oil and gas reserve information, including an entity's reserve amounts and changes from year to year. Our suggestions for improved disclosure follow.

Reserves Are A Core Measure Of Exploration and Production Performance

We rate the debt obligations of approximately 125 oil and gas exploration and production (E&P) companies globally. The oil and gas reserve data of E&P companies are at the core of information we use to measure E&P asset quality and performance, and are essential to our credit opinions. We believe the alignment of the required supplemental oil and gas reserve disclosures with the SEC's recent modernization of oil and gas reserve reporting is appropriate, and will avoid the confusion that would result if current accounting requirements remained unchanged. In our analyses of E&P companies, we evaluate, among other things, the size, quality, and mix of oil and gas reserves; selling prices and production costs; production prospects; reserve replacement; and the costs to develop reserves. (See "Key Credit Factors: Business And Financial Risk In The Oil And Gas Exploration And Production Industry" published Nov. 10, 2008, on RatingsDirect.) Consequently, we rely extensively on reserve disclosures required by the FASB's Accounting Standards Codification, Topic 932, Extractive Industries--Oil and Gas, to calculate key operating ratios such as proportion of liquids in overall reserves and production, reserve life, reserve replacement, finding and development (F&D) costs, and lifting costs.

Although we evaluate debt and the extent of financial leverage for E&P companies using several measures, one important measure is debt leverage relative to reserves. Because reserves help gauge a company's future production potential--and hence revenue and cash flow potential—we believe it is important to compare them with debt levels to assess a company's overall leverage burden and ability to service debt payment obligations. The measure of debt--as adjusted to include certain analytical adjustments made by our analysts, e.g., the effect of operating leases--relative to total proved reserves and to proved developed reserves, respectively, are key financial leverage ratios we consider.

Possible And Probable Reserves

The SEC's "Modernization of Oil and Gas Reporting Requirements" allows optional disclosure of possible and probable reserves. The Proposed Accounting Standards Update should address and encourage voluntary disclosure of possible and probable reserves in the supplemental oil and gas disclosures. We recognize that having an adequate inventory of future drilling locations is vital for future reserve replacement and production prospects. Accordingly, information on a company's possible and probable reserves, including geographic location and cost to develop, would be relevant forward-looking information for analytical consideration.

Sensitivity Analysis

Sensitivity disclosures will allow analysts and other users to understand the effects on reported reserve amounts of fluctuations in selling prices and costs and other reasonable changes. Oil and gas reserves are difficult to estimate and require significant judgment and assumptions by company managements. In addition, reserve amounts can change as selling prices and costs change. Consequently, we recommend the Board require sensitivity-analysis disclosures that provide additional reserve information at different prices and costs--such as those that managements use to make investment decisions or that reflect other plausible changes in assumptions. The prices, costs, and significant assumptions used in the determination of reserves should be available to users of financial information, so they can assess the reasonableness and appropriateness of the data inputs used to estimate reserves. This would also facilitate trend analysis, in addition to peer comparisons.

Future Production

In our opinion, the FASB should require companies to disclose estimates of future oil and gas production related to proved reserves, and the capital costs necessary to produce those reserves, for a minimum of three years. Estimates of future production are useful in evaluating a company's expected future cash flows and liquidity needs. A more complete understanding of the underlying decline curves of a company's reserves and production would be valuable. This is particularly so when considering the consequences on future reserve replacement and production if companies reduce capital expenditures when hydrocarbon prices are low.

Production-Sharing Contracts

Disclosures should also address whether there are production-sharing contracts, and how they affect oil and gas reserves. Production-sharing contracts, commonly used in many parts of the world, allow E&P companies to recover their costs and share in profits by receiving a portion of the hydrocarbons produced. E&P companies record the estimated portion of oil and gas volumes that they expect to receive over the life of the contract as reserves. As oil and gas selling prices change, reserve estimates from production-sharing contracts may behave in counterintuitive ways. For example, as the selling price per barrel increases, the number of barrels of oil needed to recover the company's costs in a production-sharing contract decreases, and reserves decrease. Also, in many cases, we believe that high prices accelerate cash inflows to the company exponentially, to the detriment of cash flow generation in subsequent periods. This disclosure would allow analysts and users to understand how production-sharing contracts affect reserves, reserve replacement ratios, and future cash flows.

Hedging

Hedging can also meaningfully change the economic value of reserves by fixing the selling prices of future oil and gas production. Accordingly, we believe companies should disclose the effects of hedges in determining oil and gas reserves and in calculating the standardized measure of future cash flows.

International Accounting Standards and Other Extractive Industries

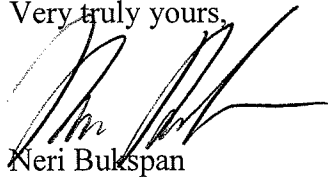
We believe the FASB and the International Accounting Standards Board (IASB) should consider this project for convergence, so that oil and gas producers worldwide will use the same high quality disclosure standards. The FASB and IASB project should expand reserve disclosure requirements to other extractive industries such as mining.

We have provided our responses to the specific questions listed in this Proposed Accounting Standards Update in the appendix to this letter.

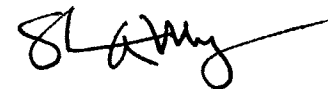
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We thank you for the opportunity to provide our comments on this Proposed Accounting Standards Update. We would be pleased to discuss our views with any member of the Board or your staff. If you have any questions or require additional information, please contact the undersigned.

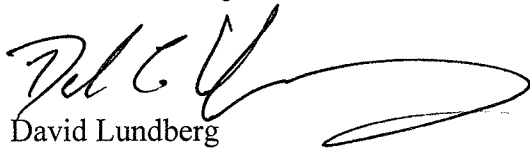
Very truly yours,



Neri Bukspan
Managing Director, Chief Quality Officer, and Chief Accountant
Standard & Poor's
(212) 438-1792
neri_bukspan@standardandpoors.com



Sherman Myers
Director, Financial Reporting
Standard & Poor's
(212) 438-4229
sherman_myers@standardandpoors.com



David Lundberg
Director
Standard & Poor's
(212) 438-7551
david_lundberg@standardandpoors.com

cc: International Accounting Standards Board

Appendix – Response to Specific Questions in the Proposed Accounting Standards 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?

Yes. Companies can, and do, invest in oil and gas exploration and production activities in many different forms of business entities, including direct investments in oil and gas properties (such as undivided interests), partnerships, joint ventures, equity investments, and subsidiaries. We believe that entities should consider all such business forms in determining whether they have “significant oil and gas producing activities.”

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? 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 investments with significant oil- and gas-producing activities? If so, what should be the basis of that threshold?

Yes. Although reserves of equity investees may not provide direct cash flow support, these investees certainly have asset value to the investor. For some companies, the share of reserves of equity affiliates is substantial. Consequently, this additional information will be useful for our analysis. Consistent with other investee arrangements, oil and gas companies should disclose any restriction on distributions or on the availability of cash from equity investees (as well as from fully consolidated investees).

Regarding the establishment of a threshold below which information about equity affiliates would not be required, we believe the existing principle that disclosure need not apply to immaterial amounts is sufficient.

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 areas and product (if applicable)? See the appendix of this proposed Update for an example of this alternative presentation for reserve quantities.

We support disclosure of detail information as currently proposed. We believe that geographical domicile is pertinent regardless of the form of investment (undivided interest, joint venture, or subsidiary). In cases where the additional details by geographic areas, products, and changes in reserve amounts have been disclosed, they have helped us better understand a company’s opportunities and threats.

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?

Yes, we agree that entities may disclose total consolidated and equity share of reserves and other items; however, we would also suggest that the Board require subtotals for the consolidated entity, which would be useful for our analysis. See our response to Question 2.

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 future net 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 amendment to Topic 932 in this proposed Update on reserve quantities or the standardized measure for discounted future net cash flows?

While we agree that oil and gas reserves are estimates that require management judgment and assumptions, we believe entities should estimate and disclose the effects of the SEC's reserve modernization on individual line items in the reserve reconciliation. This disclosure will promote comparability and help us better understand and distinguish changes that result from business operating activities from those caused by modifications in the way entities determine reserve amounts, such as those resulting from the SEC's rule changes.