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October 15, 2009

Mr. Russell G. Golden
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

File Reference: 1730-100

Re: Proposed Accounting Standards Update — *Oil and Gas Reserve Estimation and Disclosures*

Dear Mr. Golden:

Deloitte & Touche LLP is pleased to comment on the FASB's proposed Accounting Standards Update of Extractive Industries — Oil and Gas (Topic 932), *Oil and Gas Reserve Estimation and Disclosures* (the "exposure draft" or the "proposed ASU").

We support the Board's efforts to align its oil and gas reserve estimation and disclosure requirements with those in the SEC's final rule, *Modernization of the Oil and Gas Reporting Requirements* (the "SEC final rule"). However, as discussed below, we believe that the Board should clarify certain aspects of the exposure draft before issuing a final ASU. The Appendix contains our detailed responses to the proposed ASU's Questions for Respondents.

Transition

The exposure draft requires an entity to provide certain reserve disclosures, if they are significant and practical to estimate, to describe the effect of adoption of this proposed ASU. The Board should clarify what it means by the term "significant," and in particular whether significance is measured on a reserve-volume or a reserve-value basis. We encourage the Board to solicit input from preparers regarding operational challenges in providing the proposed transition disclosures.

Information Required for Equity Method Investees

The exposure draft expands the required reserve disclosures for significant equity method investments so that they are consistent with the information required for proportionately consolidated investments. While we believe that such information would be beneficial to investors, we suggest that the Board solicit input from preparers regarding any legal, corporate governance, or other company- or operator-specific restrictions that preparers may encounter in obtaining the necessary information to make the additional disclosures.

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Average Pricing

The Board should clarify the price to be used for acquired reserves disclosures on (1) the date of acquisition and (2) year-end. For example, an entity might acquire reserves on June 30. The spot price on this date is \$3.00, and the reserves are recorded at this price. On December 31, the average price for the 12-month period is \$5.00. However, the average price for the period from the date of acquisition to year-end is \$2.75. It is unclear whether \$5.00 or \$2.75 would be used as the price at year-end. If the average price for the full year is used (i.e., \$5.00), the entity could effectively be building or adding reserves on a volumetric basis when the pricing suggests that reserves may have diminished.

We believe that, as proposed, this requirement may lead to diversity in practice and lack of comparability among entities. This lack of comparability may be significant in situations in which an entity and its equity method investees use different pricing to account for acquisitions.

Probable and Possible Reserves

While the SEC final rule permits registrants to present probable and possible reserve disclosures, the exposure draft is silent on such presentation. Paragraph 79 of the Basis for Conclusions of Statement 69¹ explains why the standardized measure of discounted cash flows is limited to proved reserves. Although the Basis for Conclusions is not authoritative, entities may be confused when considering this discussion in light of the SEC final rule. The Board should clarify whether an entity is permitted to present probable and possible reserve disclosures in the supplemental footnotes.

Disclosure of Proved Undeveloped Reserves Development

As the SEC has done in the final rule, the Board should address (or consider addressing) disclosure of the development of proved undeveloped reserves (PUDs), including the total quantity of PUDs at year-end, any material changes to PUDs during the year, investments and progress toward the development of PUDs, and an explanation of the reasons why material concentrations of PUDs have remained undeveloped for five years or more after disclosure of PUDs.

Definitions

To promote consistency among preparers, the Board should also define the terms “search” (paragraph 932-10-05-2(a)), “exploration” (paragraph 932-10-05-2(b)), and “extraction of saleable hydrocarbons” (paragraph 932-10-05-2(d)).

¹ FASB Statement No. 69, *Disclosures About Oil and Gas Producing Activities*.

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Deloitte & Touche LLP appreciates the opportunity to comment on the exposure draft. If you have any questions concerning our comments, please contact Beth Ann Reese at (203) 761-3067.

Yours truly,

Deloitte & Touche LLP

cc: Robert Uhl

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Deloitte & Touche LLP
Appendix
Response to ASU's Questions for Respondents

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.

Yes. As discussed in our cover letter, we believe that an entity's consideration of equity method investments in determining whether an entity has significant oil- and gas-producing activities would be beneficial to investors. We encourage the Board to solicit input from preparers regarding any legal, corporate governance, or other company- or operator-specific restrictions that preparers may encounter in obtaining necessary information from equity method investments.

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?

Yes. While we recognize that there may be challenges in obtaining information from equity method investees, we believe that the proposed disclosures would help investors better understand the reserves for equity method investments. The current disclosure requirements do not provide this level of transparency. We believe that any threshold should be consistent with the 15 percent threshold proposed for presenting proved reserves by geographic area.

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.

Yes. We believe that entities should have discretion in disclosing or presenting this information at a lower level of granularity, as is done under ASC 932-235-50-36. However, for consistency with the proposed guidance on presenting proved reserves by geographic area, the Board should consider requiring this information to be presented by geographic area and product for equity method investments containing 15 percent or more of an entity's proved reserves.

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 the equity method investments are presented net within a single line item of the financial statements?

Yes. We believe that this presentation option would provide meaningful information to investors. The values and reserve information currently required do not necessarily correspond directly to financial statement line items.

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 amendments to Topic 932 in this proposed Update on reserve quantities or the standardized measure for discounted future net cash flows? Please describe any operational or technical challenges with providing a “cumulative-effect” disclosure.

As discussed in our cover letter, we believe that the Board should clarify what it means by the term “significant,” and in particular whether significance is measured on a reserve-volume or a reserve-value basis. We encourage the Board to solicit input from preparers regarding operational challenges in providing the proposed transition disclosures.