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Mr. Lawrence W. Smith
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Financial Accounting Standards Board
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Letter of Comment No: 4
File Reference: FSPFAS19A

Proposed FASB Staff Position No. FAS 19-a, “Accounting for Suspended Well Costs”

Dear Mr. Smith:

We are pleased to comment on the proposed FASB Staff Position No. FAS 19-a, “Accounting for Suspended Well Costs” (FSP FAS 19-a or the proposed FSP).

We support the issuance of FSP FAS 19-a as a final position of the FASB staff as we believe it is an improvement to the financial reporting of exploratory well costs under FASB Statement No. 19, *Financial Accounting and Reporting by Oil and Gas Companies*. The suggestions below are intended to improve the clarity and usefulness of FSP FAS 19-a. The appendix attached to this letter contains additional editorial suggestions

The Proposed Disclosures

Paragraph 10(b) of FSP FAS 19-a proposes to require enterprises to disclose the *number of wells* for which associated costs have been capitalized for a period of greater than one year. We believe the staff should reconsider the requirement to disclose the number of wells for a number of reasons.

It is not obvious to us that the number of wells is relevant and meaningful to a user of financial statements. The disclosure does not appear to provide an indication of a company’s concentration of risk with respect to the capitalized costs. The cost of such disclosure should be considered in relation to its benefit. We understand that the number of exploratory wells drilled for which costs are capitalized typically is very detailed information that is not readily available to those responsible for preparing financial information.

Additionally, management will usually make decisions about its activities using information at a level higher than an individual well basis.

Instead of requiring disclosure of the number of wells to which capitalized exploratory well costs relate, we believe it would be more useful for the enterprise to describe the nature of its

exploratory wells at a level (e.g., projects, properties, geographic regions, etc.) that is consistent with how management organizes and views its drilling activities for the purposes of making decisions and assessing performance of the business. Also, the level of aggregation or disaggregation should be consistent with the level at which the enterprise discusses its oil and gas activities in other parts of its financial statements and supplementary information. For example, the enterprise could describe the number of properties to which its capitalized exploratory well costs relate and provide a brief description of those properties such as the nature of activities performed and their location.

In fact, the example disclosure provided in paragraph 12 of the proposed FSP discloses the number of *projects* to which the capitalized exploratory well costs relate instead of the number of *wells*, which is required by paragraph 10(b). We believe the information provided in paragraph 12, if consistent with the enterprise's discussion of its oil and gas activities in other parts of its financial statements and supplementary information, is more useful and relevant to a user of financial statements than the number of wells.

Disclosures as Supplementary Information

FASB Statement No. 69, *Disclosures about Oil and Gas Producing Activities*, requires public enterprises engaging in oil and gas producing activities to disclose certain information as supplementary information. Paragraph 7 of FASB Statement No. 69 summarizes the nature of these disclosures that are considered supplementary information and states in part:

[P]ublicly traded enterprises that have significant oil and gas producing activities shall disclose with complete sets of annual financial statements the information required by paragraphs 10-34 of this Statement. Those disclosures relate to the following and are considered to be supplementary information:

- a. Proved oil and gas reserve quantities
- b. Capitalized costs relating to oil and gas producing activities
- c. Costs incurred for property acquisition, exploration, and development activities
- d. Results of operations for oil and gas producing activities
- e. A standardized measure of discounted future net cash flows relating to proved oil and gas reserve quantities

We recommend that the disclosures required by FSP FAS 19-a be included in a public enterprise's supplementary information instead of in its financial statements.

Events Outside of the Enterprise's Control

Paragraph 9 of the proposed FSP proposes to add paragraph 31A to Statement 19 as follows:

[A]n enterprise shall not continue to capitalize exploratory well costs on the chance that (a) some event will occur that is outside the enterprise's control (for example, an increase in the market price of oil or gas)... [Emphasis added]

As currently written, this clause could lead to results unintended by the staff in issuance of this proposed FSP. For example, paragraph 32 of the proposed FSP lists active negotiations with customers, governments, lenders and venture partners as indicators that the enterprise is making sufficient progress on assessing the reserves and the economic and operating viability of the project to

support continued capitalization of exploratory well costs. However, successful negotiations with all of these parties are outside the control of the enterprise. For every situation, there will be factors outside of the control of the enterprise.

It appears that the intention of the clause in paragraph 31A is to prohibit enterprises from capitalizing exploratory well costs based on anticipated changes in current market and technological conditions. As such, we recommend that the proposed paragraph 31A of Statement 19 be amended to more accurately reflect the staff's intention. A suggested amendment to the above quoted clause in the proposed paragraph 31A is as follows:

[A]n enterprise shall not continue to capitalize exploratory well costs on the chance that (a) current market conditions will change ~~some event will not occur that is outside the enterprise's control~~ (for example, an increase in the market price of oil or gas),

We appreciate your consideration of our comments. If you have any questions concerning our comments, please contact Bob Uhl at (203) 761-3705.

Yours truly,

Deloitte & Touche LLP

Appendix
Deloitte & Touche LLP
Proposed FASB Staff Position No. FAS 19-a
Other Suggestions

- **Paragraph 9 (paragraph 32(i)).** As written, this paragraph is confusing. A suggested approach to clarifying this criterion would be to replace paragraph 32(i) with the following:

Identification of existing transportation and other infrastructure that are or will be available for the project (subject to negotiations for use).

- **Paragraph 9 (paragraph 34).** To clarify when planning activities would no longer be sufficient to continue capitalization of exploratory well costs, the following amendment is suggested to the second sentence:

After a reasonable period of time has lapsed, ~~The~~ planning of activities for the ~~near~~-future in the absence of engaging in the substantial ~~other-actual~~ activities is not sufficient to continue the capitalization of exploratory well or exploratory-type stratigraphic well costs.

- **Paragraph 10(a).** The following suggestion is to create consistency between the disclosure requirement and the example disclosure provided in paragraph 12 of the proposed FSP:

...An enterprise also shall separately disclose for each period that an income statement is presented ~~the net changes from period to period in those capitalized exploratory well costs and shall separately disclose~~ changes in those capitalized exploratory well costs resulting from (1) additions to capitalized exploratory well costs that are pending the determination of proved reserves, (2) capitalized exploratory well costs that were reclassified to wells, equipment, and facilities based on the determination of proved reserves, and (3) capitalized exploratory well costs that were charged to expense.

Alternatively, paragraph 10(a) could be left unchanged and the example disclosure in paragraph 12 could include a subtotal to present the *net change* in capitalized exploratory well costs.

- **Paragraph 10(b).** To improve consistency of application, we recommend that the word “significantly” be deleted from the last sentence of paragraph 10(b) so that it reads as follows:

Additionally, for exploratory well costs that are capitalized for periods ~~significantly~~ greater than one year at the most recent balance sheet date...