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ROBERT H. HERZ
Chairman

June 15, 2004

The Honorable John D. Dingell
Ranking Member
Committee on Energy and Commerce
U.S. House of Representatives
2322 Rayburn House Office Building
Washington, DC 20515-6115

Dear Congressman Dingell:

Thank you for your letter of May 4, 2004, that raises a number of questions concerning oil- and gas-producing entities.

The Financial Accounting Standards Board (FASB or Board) is an independent private-sector organization. Our independence from enterprises, auditors, and other parties is fundamental to achieving our mission—to establish and improve standards of financial accounting and reporting for both public and nonpublic enterprises. Those standards are essential to the efficient functioning of the United States economy because investors, creditors, and other consumers of financial reports rely heavily on credible, comparable, and unbiased financial information to make decisions.

Your questions have been raised in connection with the recent revisions of proved reserves by Royal Dutch/Shell Group and El Paso Corporation. Consistent with our mission to improve financial reporting, the FASB actively seeks and receives feedback on financial accounting and reporting matters to identify the significant areas of financial reporting that might be improved through the standard-setting process. For example, the Board recently issued FASB Statement No. 150[1] and FASB Interpretation No. 46[2] to address certain financial accounting and reporting issues that were brought into the spotlight following the Enron Corporation bankruptcy.[3] In response to the issues that you have raised, the Board

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[1]FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity.*

[2]FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities.*

[3]"Rebuilding Investor Confidence, Protecting U.S. Capital Markets—The Sarbanes-Oxley Act: The First Year," *House Committee on Financial Services*, pages 3 and 4; Olaf de Senerpont Domis, "Consolidating Options," *Daily Deal*, June 2, 2003; "Accounting Rulemakers Tighten Rules on Liabilities," *Reuters News*, May 15, 2003; "In Quick Compromise, FASB Issues Tighter Rules on SPEs," *Accounting Today*, March 2003; "New Rule to Curb Accounting Abuse," *The Seattle Times*, January 17, 2003; Jackie Spinner, "FASB Tightens Rules on Special Purpose Entities," *Washingtonpost.com*, January 17, 2003; Deepa Babington, "Tougher Rules on Enron-Type Deals Approved," *Reuters*, January 15, 2003.

will continue to monitor the situation and evaluate whether it should initiate a standard-setting effort related to the reporting of oil and gas reserves. The Board will consult with the Securities and Exchange Commission (SEC) and the Public Company Accounting Oversight Board (PCAOB) before reaching a final conclusion. We appreciate your concern and efforts related to gathering information that may assist us in determining an appropriate course of action.

The FASB also is monitoring the International Accounting Standards Board's project on the extractive industries to determine whether there is an opportunity to improve the current accounting and reporting standards for oil and gas companies by converging to an international standard.

This response to your letter follows the order in which your questions were raised.

Question 1

The accounting practices provisions (42 U.S.C. Sec 6383) of the Energy Policy and Conservation Act of 1975 required the Securities and Exchange Commission (SEC) to develop within two years accounting practices to be followed in the preparation of accounts by persons engaged, in whole or in part, in the production of crude oil or natural gas in the United States. It required the SEC to consult with the Secretary of Energy (DOE), the Federal Energy Regulatory Commission (FERC), and the General Accounting Office (GAO) in developing such practices, and authorized the SEC to defer to FASB pronouncements, under certain circumstances. It also spelled out general requirements for these accounting practices.

Please discuss and explain the steps that have been taken to implement, administer, and enforce this mandate.

Response:

The Board issued FASB Statement No. 19, *Financial Accounting and Reporting by Oil and Gas Producing Companies*, under its authority to establish U.S. standards of financial accounting and reporting, to assist the SEC in carrying out its obligation under the Energy Policy and Conservation Act of 1975. The FASB also has issued interpretations and amendments of Statement 19 and other authoritative accounting pronouncements for oil- and gas-producing companies. Refer to our response to Question 2 for more detailed information on the key accounting requirements for oil- and gas-producing companies that prepare financial statements in accordance with U.S. generally accepted accounting principles.

Question 2

Please discuss and explain the key requirements of Statement of Financial Accounting Standards Nos. 19 (Financial Accounting and Reporting by Oil and Gas Producing Companies), 25 (Suspension of Certain Accounting Requirements for Oil and Gas Producing Companies), and 69 (Disclosures about Oil and Gas Producing Activities).

Please explain the difference between "successful efforts," "full cost," and "value" accounting. Which method has been mandated for SEC registrants and why? What impact has that determination had on transparency and accuracy of accounting and disclosures? Is this issue being revisited in light of the recent scandals?

Response:

The two primary methods for accounting for oil- and gas-producing activities in the United States are the successful efforts method and the full cost method. The successful efforts method permits capitalization of only those costs directly related to proven properties—those properties with proved reserves. Exploration costs and costs of drilling wells that contain no or uneconomic quantities of oil and gas are charged to expense. In contrast, the full cost method permits capitalization of all costs incurred in exploring for, acquiring, and developing reserves regardless of whether those costs relate directly to proven properties. Companies subject to SEC reporting requirements are required to provide standardized disclosures about their oil- and gas-producing activities regardless of the method of accounting they use.

In 1977, the Board issued FASB Statement No. 19, *Financial Accounting and Reporting by Oil and Gas Producing Entities,* which required oil- and gas-producing entities to use the successful efforts method of accounting. Before Statement 19 became effective, the SEC issued ASR No. 253, *Adoption of Requirements for Financial Accounting and Reporting Practices for Oil and Gas Producing Activities,* which permits the use of either the successful efforts method or the full cost method of accounting for public companies. In response, the FASB issued FASB Statement No. 25, *Suspension of Certain Accounting Requirements for Oil and Gas Producing Companies*, which eliminated the requirement that oil and gas companies use the successful efforts method of accounting. Accordingly, some companies, both private and public, continue to use the full cost method of accounting for their oil- and gas-producing activities.

In 1982, the Board issued FASB Statement No. 69, *Disclosures about Oil and Gas Producing Activities*, partially to address the company-to-company inconsistency in financial information that results from the existence of different accounting models.

The following provides more detailed information about the FASB's standard-setting activities for oil and gas companies.

Statement 19 (issued December 1977)

Statement 19 required oil and gas companies to use the successful efforts method of accounting and to provide disclosures that were considered necessary for the fair presentation of financial statements. In summary, Statement 19 required companies to:

- Expense exploration costs including geological and geophysical costs, costs of carrying and retaining undeveloped properties, and drilling costs related to wells that contain no or uneconomic quantities of oil and gas.

- Capitalize acquisition costs subject to periodic impairment evaluations, the costs of drilling exploratory wells where proved reserves are found, and development costs. Accumulate costs by cost centers that consist of individual properties or an aggregation of properties in the same field or reservoir.

- Amortize capitalized costs on a unit-of-production basis as a cost of the oil and gas produced. Other production costs are included in the cost of oil and gas produced in the period in which those costs are incurred. Capitalized costs also are subject to impairment evaluations.

During its deliberations of Statement 19, the Board considered a number of alternatives to the successful efforts method of accounting including the full cost, discovery value, and fair value methods. Both the successful efforts method and the full cost method were widely used in practice when Statement 19 was deliberated. The discovery value and the fair value methods (collectively, the value methods) were proposals that were not used in practice. The discovery value method would have required companies to recognize their oil and gas reserves at estimated values either when the reserves were discovered or when the reserves were developed. The fair value method would have required companies to recognize their oil and gas reserves at fair value at each financial reporting period.

The FASB rejected both of the value methods of accounting primarily due to the difficulty and uncertainty inherent in the estimates of value and the effects of those uncertainties on the reliability of the financial statements. To illustrate the complexity, a valuation of oil and gas reserves requires estimates of (a) the quantity of reserves, (b) the amount and timing of costs to develop the reserves, (c) the timing of production of the reserves, (d) the production costs and income taxes, (e) future selling prices, and (f) discount rates that reflect interest and risk factors. Although the Board's thinking about fair value measures and their use in financial statements has evolved since the issuance of Statement 19, the Board concluded in Statement 19 that the uncertainties inherent in the estimates of reserve values make them highly subjective and relatively unreliable for the purpose of providing the basis on which to prepare financial statements.

The FASB also rejected a proposal to permit alternative accounting methods. Under this proposal, an oil and gas company would have had a choice between the successful efforts method and the full cost method. The FASB concluded that differences in accounting methods may be appropriate when significant differences in facts and circumstances exist, but different accounting among companies for the same type of facts and circumstances impedes comparability of financial statements and significantly detracts from their usefulness to financial statement users. Further, the FASB concluded that companies that search for and develop oil and gas reserves face substantial similar facts and circumstances (that is, risks and rewards), regardless of the size, capital structure, or location of the company and its operations. Accordingly, Statement 19 did not permit oil and gas companies to select from alternatives, but required a single method of accounting.

The FASB considered the differences between the successful efforts method and the full cost method and concluded that the successful efforts method more appropriately reflected the risks inherent in finding and developing oil and gas reserves. The principal difference between the methods of accounting is that under the full cost method costs related to exploration activities are carried forward as costs of oil and gas reserves; under the successful efforts method those costs are charged to expense. The full cost method considers the costs of unsuccessful acquisitions and exploration activities as necessary costs for the discovery of reserves. In contrast, under the successful efforts method, costs must be directly related to proved reserves for the costs to be capitalized and considered assets. The Board concluded that it would be inappropriate to capitalize costs of exploration activities that do not result in finding reserves. Accordingly, the Board favored the successful efforts method of accounting. The Board considered many other factors in its decision including:

- *Accounting Framework*—The Board concluded that the successful efforts method is consistent with the accounting conceptual framework and that the full cost method is not. Specifically, under the full cost method, capitalized exploration costs that are not directly related to proved reserves do not represent probable future economic benefits and, therefore, are not assets under the accounting conceptual framework.[4]

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[4]FASB Concepts Statement No. 6, *Elements of Financial Statements*, defines assets as "probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events."

- *Risks and Unsuccessful Results*—The Board believed that the full cost method tends to obscure failure and risk by capitalizing the costs of unsuccessful acquisitions and exploration activities. In contrast, the successful efforts method highlights failures and risks by requiring unsuccessful activities to be expensed. The FASB believed that the information provided by the successful efforts method is important for an investor to understand an oil and gas company.

Additional information about the FASB's deliberations, conclusions, and due process can be found in Statement 19, including its Appendix A, *Background Information*, and Appendix B, *Basis for Conclusions*.

Statement 25 (issued February 1979)

Statement 25 suspended, for an indefinite period of time, the effective date of Statement 19's requirement that oil and gas companies apply the successful efforts method of accounting—effectively eliminating the requirement. Statement 25 also adopted a new definition of proved reserves to conform to the definition that is required for SEC reporting purposes and the Department of Energy's (DOE) Financial Reporting System. That definition was developed by the DOE and adopted by the SEC in 1978 in ASR No. 257 *Requirements for Financial Accounting and Reporting Practices for Oil and Gas Producing Activities*. Statement 25 also permitted companies to provide the required reserve disclosures outside the basic financial statements.

The FASB eliminated the requirement for the successful efforts method of accounting in response to the SEC. Before Statement 19 became effective, the SEC issued ASR 253, which permitted public companies to use either the successful efforts method as set forth in Statement 19 or a full cost method that was adopted by the SEC.[5] The SEC took that action because it believed that neither the full cost method nor the successful efforts method provided sufficient information on the financial results of oil and gas companies. Accordingly, the SEC concluded that a new method of accounting that was based on the valuation of proved reserves should replace both the successful efforts method and the full cost method. The SEC initiated the development of a new basis of accounting, which it referred to as *reserve recognition accounting*. In response to the SEC's actions, the FASB suspended the effective date of Statement 19's requirement to use the successful efforts method of accounting because the requirement would be imposed only on companies not subject to SEC reporting requirements and, therefore, would not achieve comparability.

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[5]Although public companies may apply either the successful efforts method or full cost method of accounting, the 1999 *Oil and GAS Journal's* OGJ database shows that the 20 largest publicly traded U.S. petroleum companies use the successful efforts method.

Additional information about the FASB's deliberations, conclusions, and due process can be found in Statement 25, including its Appendix A, *Basis for Conclusions*, and Appendix B, *Definitions of Proved Reserves.*

Statement 69 (issued November 1982)

In 1981, the SEC issued ASR No. 289, *Financial Reporting by Oil and Gas Producers,* which stated that the SEC no longer considers *reserve recognition accounting* to be a potential method of accounting for the primary financial statements of oil and gas companies. That Release also announced the SEC's support of an undertaking by the FASB to develop a comprehensive package of disclosures for oil and gas companies.

Statement 69 establishes disclosure requirements for oil and gas companies that are subject to SEC reporting requirements. Statement 69 also requires all companies to disclose in their financial statements whether they apply the successful efforts method or the full cost method of accounting. Statement 69 superseded the disclosure requirements of Statement 19.

In summary, Statement 69 requires public companies to disclose the following information outside the basic financials statements (known as supplemental information):

- Quantities of proved reserves of oil and gas including the details of changes during the year;

- Capitalized costs relating to oil- and gas-producing activities and the aggregated accumulated depreciation, amortization, depletion, and valuation allowances as of the end of the year;

- Costs incurred in oil and gas property acquisition, exploration, and development during the year;

- Details of results of operations of oil- and gas-producing activities during the year (revenues, production costs, exploration expenses, depreciation/depletion/amortization expense, valuation provisions, and income tax expense); and

- Standardized measure of discounted future net cash flows relating to proved oil and gas reserve quantities.

The FASB's primary objectives for the required disclosers in Statement 69 were (a) to develop disclosure requirements that are useful and, in particular, would compensate for recognized deficiencies in comparability and predictive value for financial statement information of oil and gas companies and (b) to consider the cost-benefit relationship of alternative disclosures and to reduce the quantity and cost of existing disclosures.

In its deliberations of Statement 69, the Board acknowledged that the historical-cost-based financial statements for oil and gas companies have limited predictive value. Further, their usefulness is reduced because a uniform method of accounting is not required. That is, the comparability of financial information is reduced because companies can use either the successful efforts method or the full cost method. Accordingly, the FASB concluded in Statement 69 to require certain disclosures based on historical financial information and a standardized measure of estimated future cash flows.

Additional information about the FASB's deliberations, conclusions, and due process can be found in Statement 69, including its Appendix B, *Background Information*, and Appendix C, *Basis for Conclusions*.

Question 3

In 1979, FAS25 adopted the definitions of "proved oil and gas reserves," "proved developed oil and gas reserves," and "proved undeveloped oil and gas reserves" developed by the Department of Energy for its Financial Reporting System and adopted by the SEC in 1978 in ASR No. 257. Proved oil and gas reserves are defined as "the estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made." The key determination is "reasonable certainty."

Please identify and explain any SEC or FASB guidance relevant to assessing "reasonable certainty." Is the guidance adequate? Is it being reviewed in light of the recent debacles? If not, why not?

Response:

In 1979, the FASB issued Statement 25, which adopted definitions of "proved oil and gas reserves," "proved developed oil and gas reserves," and "proved undeveloped reserves" (collectively, proved reserves) that the DOE developed and the SEC adopted in 1978. As a result, the definitions of proved reserves are consistent for GAAP-based financial statements, SEC reporting purposes, and the DOE Financial Reporting System. Any changes in the SEC definitions of proved reserves automatically change the FASB's definitions in Statement 25. Refer to Appendix B of Statement 25 for the complete definitions of proved reserves.

A key in the definition of proved reserves is that a company must have "reasonable certainty" of the reserves for the reserves to be considered proved. Although the FASB does not define "reasonable certainty," the definitions provide guidance as to the characteristics and information required before companies can classify reserves as proved. The classification of reserves is highly complex and requires significant judgment. Reserve estimates generally are prepared by petroleum engineers or geologists with specialized knowledge in estimating oil and gas reserves.

The Society of Petroleum Engineers has adopted standards for the estimating and auditing of oil and gas reserves by qualified engineers and geologists.[6] Although the Society of Petroleum Engineers' standards are nonauthoritative, and nonbinding to its members, an objective of the standards is to establish general principles for determining and auditing reserves estimates. Additionally, the FASB understands that the SEC staff has provided guidance on the determination of proved reserves.

The Board has not received any formal requests or technical inquires about the definition of proved reserves or the application of the definition since the issuance of Statement 25. Accordingly, the Board has not issued any interpretative guidance.

As a matter of policy, the FASB actively seeks and receives feedback on accounting and reporting matters that may require the issuance of authoritative guidance. The FASB considers all formal requests for accounting guidance either through the Board's agenda process or the FASB's Emerging Issues Task Force (EITF). The FASB also receives information on accounting and reporting matters from its advisory council—the Financial Accounting Standards Advisory Council. In addition to those formal processes, the FASB receives information on emerging accounting issues through frequent interaction with constituents and technical inquiries received from preparers and auditors. Finally, the Board works closely with the SEC staff to identify areas for significant improvement in financial reporting. In response to the issues that you have raised, the Board will continue to monitor the situation and evaluate whether it should initiate a standard-setting effort related to the reporting of oil and gas reserves.

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[6]Society of Petroleum Engineers of American Institute of Mining Engineers, *Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserve Information.*

Question 4

What is the relevance and importance of oil and gas reserve disclosures to investors? To national energy policy decisions and national economic planning? What would be the impact of significant misrepresentations of such reserves? What steps are you taking to restore credibility and reliability in this area?

Response:

The Board believes that the required disclosures for oil and gas companies in Statement 69 provide important information to investors. A primary objective of Statement 69 was to develop disclosure requirements that are useful to investors, and the Board expended significant efforts to achieve that objective. First, the Board formed a working group of 20 people from the oil and gas industry, petroleum and geological consulting firms, the financial community, the public accounting profession, and academe to advise the staff on technical matters. Second, the FASB published an Invitation to Comment, *Disclosures about Oil and Gas Producing Activities*, and received 120 comment letters on the document. The FASB also conducted a public hearing on the Invitation to Comment. Third, the FASB issued an Exposure Draft, *Disclosures about Oil and Gas Producing Activities*, and received 113 comment letters. Most respondents to the Invitation of Comment and the Exposure Draft supported the FASB's conclusion that for investors to understand and interpret the financial statements of oil and gas companies, there must be information about reserves. The Board continues to believe that investors and other users of financial statements benefit from the disclosures required by Statement 69.

Additionally, the majority of academic research on reserve disclosures concludes that the Statement 69 disclosures are useful to investors. In 1998, the International Accounting Standards Committee established a committee to study the extractive industries as a first step in developing a comprehensive accounting standard for the oil and gas, and mining industries. This committee commissioned a review of all published research on the relevance and reliability of reserve disclosures.[7] In summary, the review concludes that investors rely on the reserve quantities disclosures, although reserve estimates are not perceived to be necessarily accurate. Further, the review finds that the majority of the academic research concludes that the standardized measure disclosures are useful to investors.

[7]International Accounting Standards Committee, An Issues Paper Issued for Comment by the IASC Steering Committee on Extractive Industries, pages 350–362.

The Board believes that a misrepresentation of reserve disclosures may have a significant impact on investors because of the importance of the disclosures. Further, misrepresentations of financial information negatively affect market creditability and reliability.

In response to the issues that you have raised, the Board will continue to monitor the situation and evaluate whether it should initiate a standard-setting effort related to the reporting of oil and gas reserves.

Question 5

Press reports indicate that the SEC is conducting a formal investigation into widespread overbooking and subsequent write-down and restatement of oil and natural gas reserves by the Royal Dutch/Shell Group.

In the wake of this debacle, is the SEC examining practice and disclosures across the industry? If not, why not? If so, please explain the scope of that inquiry.

Is the SEC investigating announced reserve write-downs and restatements by any other companies? If so, please identify each company, the percentage/amount of overstatement and/or subsequent write-down, the estimated restatement and its financial impact if known, and the outside auditor in each case.

Response:

This question is addressed to the SEC and, accordingly, the FASB is not in a position to respond.

Question 6

Was the SEC or its staff aware of these problems beforehand or did they come as a surprise? Did Wall Street analysts raise any concerns about oil and gas reserve accounting and disclosures prior to Shell's revelations earlier this year?

For the period covering the past ten years, how many SEC staff were assigned to review these filings and what has been their background and training? What level of review has been given to oil and gas filings, especially the disclosures of reserve quantities in the financial statements?

Response:

This question is addressed to the SEC and, accordingly, the FASB is not in a position to respond.

Question 7

In a recent Leader entitled "Needlessly murky," The Economist (April 10, 2004, at 12) sharply criticized U.S. accounting rules on how oil and gas companies book reserves. "The boldest reform required now is for the SEC to demand that all energy firms whose shares are traded in America have their reserves reviewed by independent auditors. Ironically, oil firms from Russia, India and China have already done this to bolster their credibility."

What is the rationale of the SEC and FASB for not having adopted this requirement? Is this under reconsideration in light of the recent debacles? If not, why not?

Response:

Statement 69 permits companies to provide its disclosures outside the basic financial statements and, accordingly, the disclosures are not subject to the financial statement audit. However, an auditor is responsible for performing certain limited procedures on the required disclosures. SAS 52[8] and Auditing Interpretation No. 1 of SAS 52[9] describe the auditor's responsibility with regard to this information.

The Board considered the location of oil and gas disclosures during its deliberations of Statement 25 and Statement 69. During those deliberations, the FASB considered constituents' concerns related to the cost, amount of time, and difficulty of obtaining independent verification of reserve quantities that would be necessary if the information was included in the financial statements and, therefore, subject to independent audit. Assessing the benefits and costs of a new or different method of accounting or disclosure is integral to the Board's decision-making process and is unavoidably subjective.

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[8]Statement on Auditing Standards No. 52, *Omnibus Statement on Auditing Standards—1987,* "Required Supplementary Information."
[9]Auditing Interpretation No. 1 of SAS 52, "Supplementary Oil and Gas Reserve Information."

The Board considered the cost concerns (a) in light of its recent deliberations on providing information outside the financial statements including a proposed Statement[10] that would require information about the changes in prices to be disclosed outside the financial statements, (b) because the petroleum engineering profession was developing uniform guidelines for verifying the work of another petroleum engineer, and (c) because the auditing profession was developing standards that would establish an independent accountant's responsibility to review information outside the financial statements. Further, the Board recognized that a financial auditor likely would not have the skills necessary to attest to the quantities of proved reserves. As a result, an auditor would be required to retain a petroleum engineer or geologist to assist in the audit if the reserve quantities were included in the financial statements. The Board also understands that including information in the financial statements is not the only alternative for requiring an independent auditor or other expert to attest to the accuracy of the information. For example, the SEC requires certain disclosures for valuation and qualifying accounts, which a company may provide either in the audited financial statements or in an audited financial statement schedule presented outside the basic financial statements.

The Board also considered the unique nature of the required disclosures. Statement 69 requires companies to disclose a standardized measure of discounted future net cash flows related to proved oil and gas reserve quantities (standardized measure). Information must be relevant and reliable to be useful to investors. Some perceive a tradeoff between relevance and reliability in financial reporting. For example, fair value measures are often considered to be more relevant to an investor, but because of the subjectivity of fair value estimates, fair value may be less reliable. The standardized measure includes many of the variables and estimates that are required to determine fair value. Those disclosures are subject to many of the same inherent risks and uncertainties as other fair value measures. Although the Board's thinking about fair value measures and the perceived tradeoff between relevance and reliability has evolved since the issuance of Statement 69, the current financial reporting model is based primarily on historical cost. Accordingly, the standardized measure is based on a different perspective than the historical cost financial statements.

The Board concluded that this information, which is based on a different perspective than the financial statements, could be reported outside the financial statements. The Board also perceived a benefit of including all the specialized oil and gas disclosures in a single location, rather than including the historical based information in the financial statements and the estimates of future cash flows outside the basic financial statements.

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[10]FASB Statement No. 33, *Financial Reporting and Changing Prices.*

In response to the issues that you have raised, the Board will continue to monitor the situation and evaluate whether it should initiate a standard-setting effort related to the reporting of oil and gas reserves.

Question 8

The report of the law firm Davis Polk & Wardwell to the Shell Group audit committee found that "the booking of 'aggressive' reserves and their continued place on Shell's books were only possible because of certain deficiencies in the company's controls. For example, the internal reserve audit function was both understaffed and undertrained." It also found that Shell's internal guidelines "were not adequately designed to yield compliant reporting of proved reserves."

What internal and external checks are required regarding internal controls? What is the responsibility of management for establishing and maintaining an adequate internal control structure and procedures for financial reporting? What is the responsibility of auditors for flagging problems in internal controls? Why did they miss the current crop of problems?

Response:

This question is addressed to the SEC and, accordingly, the FASB is not in a position to respond.

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Thank you again for your letter and for your interest in our efforts to improve financial accounting and reporting. If you have any further questions or comments, please feel free to contact me directly or our Washington, DC representative, Jeff Mahoney (703-243-9085).

Yours truly,

Robert H. Herz