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Ms. Nancy M. Morris
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

File No. S7-29-07
Concept Release on Possible Revisions to the Disclosure Requirements Related to
Oil and Gas Reserves
Release Nos. 33-8870; 34-56945

Dear Ms. Morris:

We thank you for the opportunity to comment on the SEC Concept Release: *Concept Release on Possible Revisions to the Disclosure Requirements Relating to Oil and Gas Reserves* (Concept Release). We believe this is an appropriate time to reconsider the Commission's rules covering oil and gas activities and we encourage the Commission to collaborate with all relevant professional organizations to achieve its stated objective of providing investors with the most useful picture of oil and gas reserves public companies hold.

The definition of proved reserves has a direct impact on amounts related to oil and gas activities in the financial statements of both public and non-public companies. Changes in reserve definitions and disclosure requirements might also affect the nature and extent of procedures performed by auditors in accordance with PCAOB standards related to supplemental unaudited information currently disclosed by companies with oil and gas activities. In this letter we offer our observations about these potential impacts so that the Commission may consider them in its rule-making efforts.

General Considerations

While the Concept Release does not request comment on the two accounting methods for oil and gas activities (successful efforts and full cost), changes in the definition of proved reserves would affect application of both methods. Also, changes in the Commission's definition of proved reserves would affect both public and non-public entities with oil and gas activities. For entities using the successful efforts method, the definition of proved reserves in paragraph 271 of FASB Statement of Financial Accounting Standards No. 19, *Financial Accounting and Reporting by Oil and Gas Producing Companies* (Statement 19), is linked to the reserve definition in ASR No. 257 (and any of its subsequent revisions). Entities using the full cost method look to Rule 4-10 of Regulation S-X. Only public companies are required to comply with FASB Statement of Financial Accounting Standards No. 69, *Disclosures about Oil and Gas Producing Activities* (Statement 69).



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In the current regulatory environment there is an increasing desire for international convergence in accounting, reporting and disclosure. The Commission should consider how any actions it may take are consistent with the move toward a single set of high-quality, globally-accepted, accounting standards and coordinate its efforts with the FASB and IASB in that regard.

We support the use of principles-based requirements to replace rules-based requirements to the extent possible. A more principles-based approach may eliminate the need to revisit the Commission's requirements whenever technological advances render current rules obsolete. However, we believe that any proposed requirements should provide for a high degree of consistency among registrants in estimating reserves in order to preserve comparability of information.

Accounting Considerations

As mentioned above, revisions to the rules for determining estimated oil and gas reserves will affect accounting for oil and gas activities using the successful efforts method under Statement 19 and the full cost method in Rule 4-10 of Regulation S-X. In addition, revisions would affect the disclosures about oil and gas activities required by Statement 69. Financial statement areas affected include: amounts capitalized in a registrant's financial statements for proved and unproved properties, particularly as they relate to exploration costs; depreciation, depletion and amortization recognized under the units-of-production method; and impairment testing. In light of these and other financial statement impacts the Commission should coordinate its efforts with the FASB.

Full Cost Limitations

Changes related to the definition of proved reserves or the primary inputs to the standardized measure described in Statement 69 (for example, static operating conditions, year end prices and costs, and the 10% discount rate) could impact the full cost ceiling as defined in Rule 4-10(c)(4)(i)(A) of Regulation S-X. We recommend that the Commission strive for consistency between the full cost ceiling test and the determination of proved reserves. For example, we would expect that prices used to determine proved reserves would be the same prices used in the ceiling test.

Change in Reserve Estimates

In light of possible material effects a change in reserve estimates could have on the above financial statement items, additional disclosure by entities with oil and gas activities will likely be necessary in the period in which any new reserve definitions are applied. Also, consideration should be given to "advance warning" disclosures that might be appropriate for known material effects.

Geological and Geophysical Expenditures

Updating the Commission's rules to allow for new technologies to demonstrate the existence of proved reserves might alter how recoverability of costs associated with those technologies is evaluated. The extent to which certain geological and geophysical expenditures, like 3-D seismic interpretation costs, are



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expensed under Statement 19 may need to be reconsidered if such costs may be more directly associated with proved reserves.

Audit considerations

The requirements for auditors in relation to the supplemental information required by Statement 69 are prescribed in the Codification of Statements on Auditing Standards AU 558 and 9558, which were incorporated into PCAOB Rule 3200T. As currently written, these procedures are predicated on the assumption that the supplemental information is prepared in accordance with "prescribed or applicable guidelines." The SEC should consider how the alternatives discussed in the Concept Release may impact PCAOB Rule 3200T, and coordinate with the PCAOB in that area.

We appreciate the opportunity to submit our comments on the Concept Release. If you have any questions regarding our comments, please contact Glen Davison, (212) 909-5839, gdavison@kpmg.com or Melanie Dolan, (202) 533-4934, mdolan@kpmg.com.

Sincerely yours,

KPMG LLP

cc:

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