Summary of main points:

**Pricing Mechanism for O&G Reserves Estimates:**
The final rules define the term “proved oil and gas reserves” in part as “those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible—from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations—prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation.”

It specifies that, in calculating economic producibility, a company must use a 12-month average price, calculated as the unweighted arithmetic average of the first-day-of-the-month price for each month within the 12-month period prior to the end of the reporting period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions.

We are revising both our disclosure rules and our full-cost accounting rules related to oil and gas reserves to use a single price based on a 12-month average. We also will continue to communicate with the FASB staff to align their accounting standards with these rules.

We are not adopting a rule that requires companies to use futures prices to estimate reserves at this time.

**Extraction of Bitumen and Other Non-Traditional Resources**
The revised definition of “oil and gas producing activities” that we adopt today includes the extraction of the non-traditional resources described above.

This amendment is intended to shift the focus of the definition of “oil and gas producing activities” to the final product of such activities, regardless of the extraction technology used. The amended definition states specifically that oil and gas producing activities include the extraction of saleable hydrocarbons, in the solid, liquid, or gaseous state, from oil sands, shale, coalbeds, or other nonrenewable natural resources which are intended to be upgraded into synthetic oil or gas, and activities undertaken with a view to such extraction.

We have revised the proposal to require a company to include coal and oil shale that is intended to be converted into oil and gas as oil and gas reserves.

We are revising the proposed table in Item 1202 to require separation of reserves based on final product, but distinguishing between final products that are traditional oil or gas from final products of synthetic oil or gas. We believe that with this separate disclosure, investors will be able to identify resources in projects that produce synthetic oil or gas that may be more sensitive to economic conditions from other resources.

In addition, as proposed, we are amending the definition of “oil and gas producing activities” to include activities relating to the processing or upgrading of natural resources from which synthetic oil or gas can be extracted. However, the definition would continue to exclude:
• Transporting, refining, processing (other than field processing of gas to extract liquid hydrocarbons by the company and the upgrading of natural resources extracted by the company other than oil or gas into synthetic oil or gas) or marketing oil and gas;
• The production of natural resources other than oil, gas, or natural resources from which synthetic oil and gas can be extracted; and
• The production of geothermal steam.

**Proved Oil and Gas Reserves**

We proposed to significantly revise the definition of “proved oil and gas reserves.” We are adopting that definition, substantially as proposed.

We proposed revisions to the definition that would permit the use of new reliable technologies to establish the reasonable certainty of proved reserves. The proposed revisions to the definition of “proved oil and gas reserves” also included provisions for establishing levels of lowest known hydrocarbons and highest known oil through reliable technology other than well penetrations. We are adopting those revisions as proposed.

We also are adopting, as proposed, revisions that permit a company to claim proved reserves beyond those development spacing areas that are immediately adjacent to developed spacing areas if the company can establish with reasonable certainty that these reserves are economically producible.

**Reasonable Certainty**

We are adopting the “high degree of confidence” standard that exists in the PRMS. We also are clarifying that having a “high degree of confidence” means that a quantity is “much more likely to be achieved than not, and, as changes due to increased availability of geoscience (geological, geophysical, and geochemical), engineering, and economic data are made to estimated ultimate recovery (EUR) with time, reasonably certain EUR is much more likely to increase or remain constant than to decrease” to provide elaboration to the definition of reasonable certainty.

**Developed and Undeveloped Oil and Gas Reserves**

In light of our revision to allow disclosure of probable and possible reserves, the final rules define the terms “developed oil and gas reserves” and “undeveloped oil and gas reserves” to indicate that the development status of the reserves is relevant to all classifications of oil and gas reserves.

In the Proposing Release, we proposed a significantly revised definition of the term “proved undeveloped oil and gas reserves.” The most significant aspect of the proposed revision was the replacement of the existing “certainty” test for areas beyond one offsetting drilling unit from a productive well with a “reasonable certainty” test. We are adopting this aspect of the definition as proposed.

We agree that the rule should allow the recognition of reserves in projects that are expected to run more than five years, regardless of whether “unusual” circumstances exist. Therefore, we have revised the rule to replace the term “unusual” with the term “specific.” We note that, as proposed, Item 1203 of Regulation S-K would require disclosure regarding why such undeveloped reserves have not been developed.
As proposed, we are expanding this definition of the term “undeveloped oil and gas reserves” to permit the use of techniques that have been proved effective by actual production from projects in the same reservoir or an analogous reservoir or “by other evidence using reliable technology that establishes reasonable certainty.”

We have replaced the term “drilling units” with the term “development spacing areas.”

**Reliable Technology**

We are adopting, substantially as proposed, a new definition of “reliable technology” that would broaden the types of technologies that a company may use to establish reserves estimates and categories. All commenters on this topic supported the proposed principles-based definition for reliable technology.

Thus, the new definition of the term “reliable technology” permits the use of technology (including computational methods) that has been field tested and has demonstrated consistency and repeatability in the formation being evaluated or in an analogous formation. This new standard will permit the use of a new technology or a combination of technologies once a company can establish and document the reliability of that technology or combination of technologies.

We have removed the “widely accepted” requirement from the final rule.

The proposal would have required a company to disclose the technology used to establish reserves estimates and categories for material properties in a company’s first filing with the Commission and for material additions to reserves estimates in subsequent filings because, under the proposal, a company would be able to select the technology or mix of technologies that it uses to establish reserves. We are clarifying that the required disclosure would be limited to a concise summary of the technology or technologies used to create the estimate. As noted, however, the Commission’s staff, as part of the review and comment process, may continue to request companies to provide supplemental data, consistent with current practice, which, under the new rules, may include information sufficient to support a company’s conclusion that a technology or mix of technologies used to establish reserves meets the definition of “reliable technology.”

**Unproved Reserves—“Probable Reserves” and “Possible Reserves”**

We are adopting the proposal to permit disclosure of probable and possible reserves. Therefore, we are adopting the proposed definitions of the terms “probable reserves” and “possible reserves” as proposed.

When producing an estimate of the amount of oil and gas that is recoverable from a particular reservoir, a company can make three types of estimates:

- An estimate that is reasonably certain;
- An estimate that is as likely as not to be achieved; and
- An estimate that might be achieved, but only under more favorable circumstances than are likely.

These three types of estimates are known in the industry as (1) proved, (2) proved plus probable, and (3) proved plus probable plus possible reserves estimates.
Reserves

Our final rules define the term “reserves” as the estimated remaining quantities of oil and gas and related substances anticipated to be economically producible, as of a given date, by application of development projects to known accumulations. In addition, there must exist, or there must be a reasonable expectation that there will exist, the legal right to produce or a revenue interest in the production of oil and gas, installed means of delivering oil and gas or related substances to market, and all permits and financing required to implement the project.

A note to the definition clarifies that reserves should not be assigned to adjacent reservoirs isolated by major, potentially sealing, faults until those reservoirs are penetrated and evaluated as economically producible and that reserves should not be assigned to areas that are clearly separated from a known accumulation by a non-productive reservoir (i.e., absence of reservoir, structurally low reservoir, or negative test results). Such areas may contain prospective resources (i.e., potentially recoverable resources from undiscovered accumulations).

One notable difference between our final definition of “reserves” and the PRMS definition is that our definition is based on “economic producibility” rather than “commerciality.”

Other Supporting Terms and Definitions

Analogous Reservoir: The new definition of the term “analogous reservoir” states that analogous reservoirs, as used in resources assessments, have similar rock and fluid properties, reservoir conditions (depth, temperature, and pressure) and drive mechanisms, but are typically at a more advanced stage of development than the reservoir of interest and thus may provide concepts to assist in the interpretation of more limited data and estimation of recovery.144 When used to support proved reserves, an “analogous reservoir” refers to a reservoir that shares the following characteristics with the reservoir of interest:

• Same geological formation (but not necessarily in pressure communication with the reservoir of interest);
• Same environment of deposition;
• Similar geological structure; and
• Same drive mechanism.

Bitumen: We are defining the term “bitumen” as “petroleum in a solid or semi-solid state in natural deposits. In its natural state, it usually contains sulfur, metals, and other non-hydrocarbons. Bitumen has a viscosity greater than 10,000 centipoise measured at original temperature in the deposit and atmospheric pressure, on a gas free basis.”

Revisions to Full Cost Accounting and Staff Accounting Bulletin

As we noted in Section II.B.2 of this release, commenters unanimously opposed our proposal to use different prices for disclosure and accounting purposes. We agree with those commenters and are revising our proposal to use a 12-month average price for accounting purposes.
Update and Codification of the Oil and Gas Disclosure Requirements in Regulation S-K

We are adding a new Subpart 1200 to Regulation S-K that codifies the disclosure requirements related to companies engaged in oil and gas producing activities. This new subpart largely includes the existing requirements of Industry Guide 2. However, we have revised these requirements to update them, provide better clarity with respect to the level of detail required in oil and gas disclosures, including the geographic areas by which disclosures need to be made, and provide formats for tabular presentation of these disclosures. In addition, Subpart 1200 contains the following new disclosure requirements, many of which have been requested by industry participants:

- Disclosure of reserves from non-traditional sources (e.g., bitumen, shale, coal) as oil and gas reserves;
- Optional disclosure of probable and possible reserves;
- Optional disclosure of oil and gas reserves’ sensitivity to price;
- Disclosure of the development of proved undeveloped reserves;
- Disclosure of technologies used to establish additions to reserves estimates;
- Disclosure of a company’s internal controls over reserves estimation and the qualifications of the business entity or individual preparing or auditing the reserves estimates; and
- Disclosure based on a new definition of the term “by geographic area.”

Thus, we have revised the definition of the term “by geographic area” to mean, as appropriate for meaningful disclosure under a company’s particular circumstances:

1. By individual country;
2. By groups of countries within a continent; or
3. By continent.

With respect to reserves estimates, the final rules require disclosure of reserves in countries containing more than 15% of the company’s proved reserves. As with the production disclosure, this 15% threshold would be based on the company’s total global oil and gas proved reserves, rather than on individual products, as proposed. A registrant need not provide disclosure of the reserves in a country containing 15% or more of the registrant’s proved reserves if that country’s government prohibits disclosure of reserves in that country.

The table requires disclosure by final product sold by the company, specifically, oil, gas, synthetic oil, synthetic gas, or other natural resource. Thus, if the company processes a natural resource that it has extracted, such as bitumen, into synthetic oil or gas prior to selling the product, it may include such reserves under the synthetic oil or gas columns. As noted below, we have revised the proposal that would have required disclosure by type of accumulation. In addition, in response to commenters, we have revised the definition of “oil and gas producing activities” so that a company can use the price of that synthetic oil or gas to determine the economic producibility of the reserves because the economics of the processing activity are relevant to the determination of whether to extract the underlying resource. However, if a company extracts a resource other than oil or gas, such as bitumen, and sells the product without processing it into synthetic oil or gas, it must disclose reserves of that other natural resource. Although that
company’s extractive activities would be considered an oil and gas producing activity under the definition of that term, such a company would not benefit from the economics of processing of that resource because the price that determines whether such a company extracts the resource is the price of the unprocessed resource and therefore the company may not establish reserves estimates based on the price of the upgraded product. Similarly, if the company does not itself extract the natural resource, but purchases the natural resource for processing or is paid to process the natural resource, it may not claim reserves either of the resource or of the processed product.

We note that numerous oil and gas companies already disclose unproved reserves on their Web sites and in press releases. This practice does not appear to have created confusion in the market. However, we understand commenters’ concerns that probable and possible reserves estimates are less certain than proved reserves estimates and so may increase litigation risk. By making these disclosures voluntary, a company could exercise its own discretion as to whether to provide the market with this disclosure.

We continue to be concerned that such resources are too speculative and may lead investors to incorrect conclusions. Therefore, we are adopting the proposal to prohibit disclosure of resources other than reserves. However, consistent with existing Instruction 5, a company may continue to disclose such estimates of non-reserves resources in a Commission filing related to an acquisition, merger, or consolidation if the company previously provided those estimates to a person that is offering to acquire, merge, or consolidate with the company or otherwise to acquire the company’s securities. We also proposed, and are adopting, an optional reserves sensitivity table. We are adopting this table, as proposed, as a voluntary disclosure rather than a requirement. However, as proposed, the table would require disclosure of the assumptions behind varying estimates.

We are following these commenters’ recommendations and adopting a rule that requires a company to provide a general discussion of the internal controls that it uses to assure objectivity in the reserves estimation process and disclosure of the qualifications of the technical person primarily responsible for preparing the reserves estimates or conducting the reserves audit if the company discloses that such a reserves audit has been performed, regardless of whether the technical person is an employee or an outside third party.

We proposed requiring tabular disclosure of the aging of proved undeveloped reserves (PUDs).

We recognize the concern that the PUD table that we proposed may be confusing to investors because it would not attribute capital expenditures to the corresponding reserves as they are developed. As an alternative to the proposed table, we are adopting rules that require a company to disclose the following in narrative form:

- The total quantity of PUDs at year end;
- The material changes in PUDs that occurred during the year, including PUDs converted into proved developed reserves;
- Investments and progress made during the year to convert PUDs to proved developed oil and gas reserves; and
• An explanation of the reasons why material concentrations of PUDs in individual fields or countries have remained undeveloped for five years or more after disclosure as PUDs. These disclosures would have been required under the proposal, but much of it would have been presented in tabular format. We believe that a narrative approach to these disclosures will provide companies with a better vehicle to explain the status of their PUDs and their track record for developing such reserves. Rather than requiring forward-looking information about a company’s plans to develop reserves that may lead to exaggeration of a company’s capability to actually convert such reserves, we believe that disclosure of a company’s verifiable, established track record of converting such reserves, including its ability to obtain financing for such activities, would be a better indication of the likelihood of that company’s success in developing reserves in the future. Specific required disclosure regarding a company’s failure to develop material concentrations of PUDs for five or more years should address commenters’ concerns that the company may have no intention to develop such reserves.

**Guidance for Management’s Discussion and Analysis for Companies Engaged in Oil and Gas Producing Activities**

Although we discuss a list of topics that a company might need to discuss, a company need only discuss a topic if it constitutes, involves, or indicates known trends, demands, commitments, uncertainties, and events that are reasonably likely to have a material effect on the company. These topics include:

• Changes in proved reserves and, if disclosed, probable and possible reserves, and the sources to which such changes are attributable, including changes made due to:
  o Changes in prices;
  o Technical revisions; and
  o Changes in the status of any concessions held (such as terminations, renewals, or changes in provisions);
• Technologies used to establish the appropriate level of certainty for any material additions to, or increases in, reserves estimates, including any material additions or increases to reserves estimates that are the result of any of the final rules adopted in this release;
• Prices and costs, including the impact on depreciation, depletion and amortization as well as the full cost ceiling test;
• Performance of currently producing wells, including water production from such wells and the need to use enhanced recovery techniques to maintain production from such wells;
• Performance of any mining-type activities for the production of hydrocarbons;
• The company’s recent ability to convert proved undeveloped reserves to proved developed reserves, and, if disclosed, probable reserves to proved reserves and possible reserves to probable or proved reserves;
• The minimum remaining terms of leases and concessions;
• Material changes to any line item in the tables described in Items 1202 through 1208 of Regulation S-K;
• Potential effects of different forms of rights to resources, such as production sharing contracts, on operations; and
• Geopolitical risks that apply to material concentrations of reserves.

Impact of Amendments on Accounting Literature

All commenters on the issue agreed that adoption of the rules should not require retroactive revision of past reserves estimates. Some believed retroactive revision of reserves estimates would be very burdensome or impossible because such data was not maintained. We agree with those commenters and believe that no retroactive revisions will be necessary.

With respect to resources formerly considered mining activities, we view the change from mining treatment to oil and gas treatment as a change in accounting principle that is inseparable from a change in accounting estimate, which does not require retroactive revision.

We agree that much of the disclosures regarding oil and gas companies would be conducive to interactive data. We intend to continue to work on developing a taxonomy for such disclosure. Once a well-developed taxonomy is created, we will address this issue further. We are not, however, adopting interactive data requirements in this release.

Implementation Date

We proposed to require companies to begin complying with the disclosure requirements for registration statements filed on or after January 1, 2010, and for annual reports on Forms 10-K and 20-F for fiscal years ending on or after December 31, 2009. A company may not apply the new rules to disclosures in quarterly reports prior to the first annual report in which the revised disclosures are required.

Paperwork Reduction Act

We request comment in order to evaluate the accuracy of our estimates of the burden of the revised information collections.