UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

THE CHAIRMAN

August 3, 2011

The Honorable Carolyn B. Maloney
U.S. House of Representatives
2332 Rayburn House Office Building
Washington, DC 20515

Dear Representative Maloney:

Thank you for your letter dated June 28, 2011 regarding *The New York Times* article published on June 27, 2011. Your letter notes that you are concerned with the accuracy of reserves estimates of natural gas and sets out questions about reserves estimates and the Commission's activities with respect to oil and gas disclosures.

Modernization of Disclosure Requirements

In 2008, the Commission adopted revisions to its oil and gas reporting rules that were designed to modernize and update the disclosure requirements. The oil and gas disclosure requirements were initially adopted in the 1970s and had not been updated in three decades. Since that time, changes in exploration and drilling technology have resulted in the development of sources of oil and gas which our old rules did not permit companies to disclose to investors in their SEC filings, even though those sources were resulting in production. The update of the rules was an effort to align them with current practices and advances in technology, and to provide more useful information to investors. The Commission release adopting these rules can be found at: http://sec.gov/rules/final/2009/33-8995fr.pdf.

The Commission's modernization of the oil and gas disclosure rules changed the reporting requirements in a number of ways, several of which I have highlighted below.

First, the Commission revised the definition of "oil and gas producing activity." Under the Commission's rules, companies are permitted to report reserves only when they arise from an "oil and gas producing activity." The revised definition focuses on the end product rather than the source of the resource. For example, under the prior rules, the definition of "oil and gas producing activity" excluded non-traditional sources of oil and gas, such as oil sands and shale. In adopting this revision, the Commission recognized that companies are increasingly producing energy resources from non-traditional sources and that information about these activities may be important to investors.

Second, the revised rules expanded the categories of resources that may be disclosed in Commission filings to include resources other than proved reserves. Under the prior rules, oil and gas companies were only permitted to disclose proved reserves. The revised rules allowed companies to disclose probable and possible reserves in addition to proved reserves.

Third, the Commission revised the definition of "proved undeveloped reserves" to clarify the level of certainty required for estimating quantities not immediately adjacent to a drilled location. Under the prior rules, companies were permitted to disclose proved undeveloped reserves from non-adjacent locations "only where it can be demonstrated with certainty there is continuity of production from the existing productive formation," but "certainty" was not defined. The revised rules permit companies to disclose proved undeveloped reserves from non-adjacent locations if "evidence using reliable technology exists that establishes reasonable certainty of economic producibility." The rules define "reasonable certainty" to mean "a high degree of confidence" and further define the term for specific circumstances. Under the revised rules, companies must expect, and have plans, to generally produce their proved undeveloped reserves within five years. Previously, the rules did not include such limitation. In addition, companies must explain the reasons why material amounts of proved undeveloped reserves in individual fields or countries remain undeveloped for five years or more after disclosure as proved undeveloped reserves. This limitation and disclosure increases the accountability of companies to only disclose reserves that they are seriously committed to developing and not report them for extended periods of time without development.

Fourth, in recognition of the technological advances made since the prior oil and gas disclosure rules were adopted, the revised rules allow companies to use reliable technologies to estimate reserves which, by definition, have been field tested and have demonstrated consistency and reliability. Previously, companies could only use production or flow tests to support reserves.

Fifth, under the revised rules, companies generally must use a 12-month average price rather than a one-day, year-end price to calculate proved reserves. This revision was intended to eliminate one day or seasonal impacts that might skew the reserve calculation.

Finally, the revised rules include additional disclosure requirements which require companies to provide more transparency regarding operations and changes in reserve levels.

Disclosure of Reserves

Under the Commission's rules, a company must provide comprehensive disclosure about its operations and reserves, including the location of reserves, the reserve estimation process, and the company's success in producing its reserves. Companies must provide a concise summary of the technology or technologies used to create reserve estimates, but are not required to disclose details about proprietary technologies at a level of specificity that would cause competitive harm.

In adopting the revised rules, the Commission considered whether to require a company to retain an independent third party to prepare, or conduct a reserves audit of, the company's reserves estimates. Most commentators urged the Commission not to adopt such a requirement. While the Commission's rules do not require companies to engage a third party to prepare or audit the company's reserves estimates, some companies do so and disclose it in their filings. If a company discloses that it used a third party to estimate, audit or otherwise review its reserves, it must file a report from that third party.

In addition, the Commission considered the possibility that the changes to the rules might lead to abuses, such as overestimating of reserves. For that reason, the Commission added limitations and additional disclosure requirements. For example, as noted above, a company is allowed to disclose proved undeveloped reserves only where it has a development plan in place to develop and produce any proved undeveloped reserves within five years. In addition, a company is required to provide specific disclosure regarding the failure to develop material amounts of proved undeveloped reserves after five years. Under the revised rules, a company also must provide increased transparency about the location of its operations, the controls it has in place regarding its reserves, and the reasons for material changes in its reserves levels.

The staff of the Division of Corporation Finance engages in a filing review process in which it selectively reviews filings made under the Securities Act of 1933 and the Securities Exchange Act of 1934 to monitor and enhance compliance with the applicable disclosure and accounting requirements. The filing review process does not include independent verification of the disclosure in the filings. With regard to concerns expressed about potential overestimation of reserves and a lack of third party verification, I note that the Commission's staff, as part of the filing review and comment process, routinely asks for supplemental data from companies to substantiate aspects of the companies' disclosure. When reviewing a filing made by a company engaging in oil or natural gas operations, to the extent the staff has questions about a company's disclosure of the technologies it used to estimate reserves, the staff will ask the company to provide it with technical data demonstrating that such technologies have been shown to be reliable and consistent. Staff members, including engineers, review the technical data submitted by the companies. If a company fails to demonstrate that the technology is reliable and consistent, the staff will request that the company remove the disclosure about such reserves from its filings. The staff will continue to scrutinize filings of oil and natural gas producing companies and, if appropriate, ask for additional technical information to support reserves estimates and the methodologies used to make those estimates. In cases where the staff believes that a company's disclosure is false or misleading or contains material misstatements or omissions of fact that a reasonable investor would consider important in making an investment decision, the staff will refer the matter to the Division of Enforcement. As a matter of policy, to preserve the integrity of our investigative process, any investigation that the staff may conduct is non-public unless the Commission takes any formal action.

I have asked the staff to monitor disclosures made under the revised rules and to advise me if they believe additional guidance or changes to our rules are needed.

I hope that this information is helpful. Please do not hesitate to contact me, or have a member of your staff contact Eric Spitler, Director of the Office of Legislative and Intergovernmental Affairs, at (202) 551-2010, if we can be of further assistance.

Sincerely,

Mary L. Schapiro

Mary L. Schapiro
Chairman