

## **SUPPORTING STATEMENT FOR PROPOSED MODERNIZATION OF THE OIL AND GAS REPORTING REQUIREMENTS**

This submission, pursuant to the Paperwork Reduction Act of 1995, 44 U.S.C. §3501, et seq., consists of this supporting statement and Release No. 33-8935 (June 26, 2008).

### **A. JUSTIFICATION**

#### **1. NECESSITY FOR THE INFORMATION COLLECTION**

In Release No. 33-8995, the Securities and Exchange Commission adopted rule and form amendments that contain “collection of information” requirements within the meaning of the Paperwork Reduction Act of 1995. The titles for this information are:

- (1) “Regulation S-K” (OMB Control No. 3235-0071);<sup>1</sup>
- (2) “Industry Guides” (OMB Control No. 3235-0069);
- (3) “Form S-1” (OMB Control No. 3235-0065);
- (4) “Form S-4” (OMB Control Number 3235-0324);
- (5) “Form F-1” (OMB Control Number 3235-0258);
- (6) “Form F-4” (OMB Control Number 3235-0325);
- (7) “Form 10” (OMB Control No. 3235-0064);
- (8) “Form 10-K” (OMB Control No. 3235-0063); and
- (9) “Form 20-F” (OMB Control No. 3235-0063).

These collections of information are necessary for the Commission to carry out the provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934. They set forth the disclosure requirements for periodic reports and registration statements and prospectuses. These documents are prepared by companies to ensure that investors have the information they need to make informed investment decisions in registered offerings and secondary market transactions, and informed decisions in voting their securities.

#### **2. PURPOSE OF THE INFORMATION COLLECTION**

The new rules and amendments increase existing disclosure burdens for annual reports on Forms 10-K<sup>2</sup> and 20-F and registration statements on Forms 10, 20-F, S-1, S-4,

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<sup>1</sup> The paperwork burden from Regulation S-K and the Industry Guides is imposed through the forms that are subject to the disclosures in Regulation S-K and the Industry Guides and is reflected in the analysis of those forms. To avoid a Paperwork Reduction Act inventory reflecting duplicative burdens, for administrative convenience we estimate the burdens imposed by each of Regulation S-K and the Industry Guides to be a total of one hour.

<sup>2</sup> The disclosure requirements regarding oil and gas properties and activities are in Form 10-K as well as the annual report to security holders required pursuant to Rule 14a-3(b) [17 CFR 240.14a-3(b)]. Form 10-K permits the incorporation by reference of information from the Rule 14a-3(b) annual report to security holders to satisfy the Form 10-K disclosure requirements. The analysis that follows assumes that companies would either provide the proposed disclosure in a Form 10-K or incorporate the required disclosure into the Form 10-K by reference to the Rule 14a-3(b) annual report to security holders if the company is subject to the proxy rules. This

F-1, and F-4 by creating the following new disclosure requirements, many of which were requested by industry participants:

- Disclosure of reserves from non-traditional sources (i.e., bitumen, shale, coalbed methane) 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 company's progress in converting proved undeveloped reserves into proved developed reserves, including those that are held for five years or more and an explanation of why they should continue to be considered proved;
- Disclosure of technologies used to establish reserves in a company's initial filing with the Commission and in filings which include material additions to reserves estimates;
- The company's internal controls over reserves estimates and the qualifications of the technical person primarily responsible for overseeing the preparation or audit of the reserves estimates;
- If a company represents that disclosure is based on the authority of a third party that prepared the reserves estimates or conducted a reserves audit or process review, filing a report prepared by the third party; and
- Disclosure based on a new definition of the term "by geographic area."

In addition, the amendments harmonize the disclosure requirements that apply to foreign private issuers with the disclosure requirements that apply to domestic issuers with respect to oil and gas activities. In particular, foreign private issuers must disclose the information required by Items 1205 through 1208 of Regulation S-K regarding drilling activities, present activities, delivery commitments, wells, and acreage, which previously were not specified in Appendix A to Form 20-F. These disclosure items codify the substantive disclosures called for by Items 4 through 8 of Industry Guide 2, although much of this disclosure may have been disclosed by some companies under the more general discussions of business and property on that form.

### 3. USE OF ELECTRONIC MEDIA

Periodic reports on Forms 10-K and 20-F and registration statements on Forms 10, 20-F, S-1, S-4, F-1, F-4 are filed electronically with the Commission using the Commission's Electronic Data Gathering and Retrieval (EDGAR) system.

### 4. DUPLICATION

The Energy Information Administration of the Department of Energy (DOE) collects information from companies on oil and gas reserves and production. This information is not made public on a company-by-company basis. In some cases the information is based on a company's status as the operator of a project, rather than based on a company's financial interest in the project. Therefore, this information has limited use for investors to make investment decisions on individual companies.

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approach takes into account the burden from the proposed disclosure requirements that are included in both Form 10-K and Regulation 14A or 14C.

## 5. METHODS USED TO MINIMIZE BURDEN ON SMALL BUSINESSES

The amendments apply to all issuers equally. We believe that separate disclosure requirements for small entities that would differ from the adopted reporting requirements, or exempting small entities from these disclosures, would not achieve our disclosure objectives. In particular, we believe the changes that are reflected in the amendments would balance the informational needs of investors in smaller companies with the burdens imposed on such companies by the disclosure requirements.

We note that a number of the new disclosure items are voluntary. We believe that small entities are more likely to take advantage of these permitted disclosures, particularly regarding probable and possible reserves, than larger companies, which typically already have significant proved reserves. Further, a wholesale exemption for small entities would thwart our intent to uniformly apply the disclosure and other requirements.

The amendments also would clarify and consolidate the requirements for all public companies into Regulation S-K, which may make such requirements easier to access. This may simplify the process of preparing a company's annual report or registration statement. In addition, the proposed tabular format for making the disclosures may lead to systemization of the disclosures, making such information simpler to organize.

## 6. DESCRIPTION OF CONSEQUENCES OF LESS FREQUENT COLLECTION

Less frequent collection would mean that current information may not be available to investors and may potentially decrease investor confidence in the full and fair disclosure system that is the hallmark of the U.S. capital markets.

## 7. EXPLANATION OF SPECIAL CIRCUMSTANCES

Not applicable.

## 8. CONSULTATION OUTSIDE THE AGENCY

The Commission has issued a release soliciting comment on the revised "collection of information" requirements and the associated paperwork burdens. A copy of this release is attached. Comments on Commission releases are generally received from companies, investors and other market participants.

## 9. PAYMENT OR GIFT TO RESPONDENTS

Not applicable.

## 10. ASSURANCE OF CONFIDENTIALITY

Not applicable.

## 11. SENSITIVE QUESTIONS

Not applicable.

## 12. and 13. ESTIMATES OF HOUR AND COST BURDENS

The paperwork burden estimates associated with the amendments include the time and cost of preparing and reviewing disclosure, filing documents or otherwise publicizing information, and retaining records.

These estimates represent the average burden for all companies, both large and small. We expect that the burdens and costs could be greater for larger companies and lower for smaller companies. For Securities Act registration statements on Forms S-1, S-4, F-1, F-4, 10, and 20-F, we estimate that 25% of the burden of preparation is carried by the company internally and that 75% of the burden is carried by outside professionals retained by the company at an average cost of \$400 per hour. For annual reports on Forms 10-K and 20-F, we estimate that 75% of the burden of preparation is carried by the company internally and that 25% of the burden is carried by outside professionals retained by the company at an average cost of \$400 per hour. The portion of the burden carried by outside professionals is reflected as a cost, while the portion of the burden carried by the company internally is reflected in hours.

Tables 1 and 2, below, illustrates the incremental annual compliance burdens of the collection of information in hours and in cost for our amendments. The burden was calculated by multiplying the estimated number of additional annual responses we believe will be generated by the estimated average number of hours each entity will spend completing the form or complying with the requirements of the rules.

The following tables summarize the changes to the PRA estimates:

Table 1: Calculation of Incremental Paperwork Reduction Act Burden Estimates for Exchange Act Periodic Reports

Form	Annual Responses	Incremental Hours/Form	Incremental Burden	75% Issuer	25% Professional	\$400 Professional Cost
	(A)	(B)	(C)=(A)*(B)	(D)=( C)*0.75	(E)=(C)*0.25	(F)=(E)*\$400
10-K <sup>3</sup>	206	100	20,600	15,450	5,150	2,060,000
20-F	35	150	5,250	3,938	1,312	525,000
Total	241		25,850	19,388	6,462	2,585,000

<sup>3</sup> The burden estimates for Form 10-K assume that the requirements are satisfied by either including information directly in the annual reports or incorporating the information by reference from the Rule 14a-3(b) annual report to security holders.

Table 2: Calculation of Incremental Paperwork Reduction Act Burden Estimates for Securities Act Registration Statements and Exchange Act Registration Statements

Form	Annual Responses	Incremental Hours/Form	Incremental Burden	25% Issuer	75% Professional	\$400 Professional Cost
	(A)	(B)	(C)=(A)*(B)	(D)=(C)*0.25	(E)=(C)*0.75	(F)=(E)*\$400
10	5	100	500	125	375	150,000
20-F	2	150	300	75	225	90,000
S-1	38	100	3,800	950	2,850	1,140,000
S-4	17	100	1,700	425	1,275	510,000
F-1	2	150	300	75	225	90,000
F-4	3	150	450	113	337.5	135,000
Total	67		7,050	1762.5	5,287.5	2,115,000

These burdens are attributable only to those forms submitted by oil and gas companies. Table 3 below distributes the incremental burden and cost estimated above for forms submitted oil and gas companies to the total number of each form type (submitted by all companies) to estimate an average incremental burden and cost per form.

Table 3: Estimates of Incremental Hour and Cost Burdens per Form<sup>4</sup>

Form	Burden	Cost	Total Annual Responses	Burden per Form	Cost per Form
	(A)	(B)	(C)	(D) = (A) / (C)	(E) = (B) / (C)
10	125	150,000	238	0.525	630.3
10-K	15,450	2,060,000	13,545	1.1	152.1
20-F	4,013 <sup>5</sup>	615,000	942	4.3	652.867
S-1	950	1,140,000	1,168	0.813	976.0
S-4	425	510,000	619	0.7	823.9
F-1	75	90,000	42	1.78	2142.86
F-4	113	135,000	68	1.661	1985.3

Table 4 illustrates the total annual compliance burden of the collection of information in hours and in cost. The burden was calculated by adding the incremental burdens to the existing burdens.

Table 4: Estimates of Hour and Cost Burdens

Form	Current Annual Responses	Current Hours/Form	Incremental Increase Hours/Form	Total Hours/Form	Total Burden Hours	Current Cost/Form	Incremental Increase Cost/Form	Total Cost/Form	Total Cost (1,000s)
	(A)	(B)	(C)	(D)=(B)+(C)	(E)=(A)*(D)	(F)	(G)	(H)=(F)+(G)	(I)=(A)*(H)
10	238	49.26	0.525	49.785	11,849	\$59,117.65	\$630.3	\$59,747.89	\$14,220
10-K	13,545	1,575.3	1.1	1,576.4	21,353,389	\$210,044.9	\$152.1	\$210,197	\$2,847,119
20-F	942	657	4.3	661.3	622,907	\$788,190	\$652.867	\$788,842.867	\$743,089.98
S-1	1,168	207.5	0.813	208.313	243,310	\$249,000	\$976.0274	\$249,976	\$291,972
S-4	619	1,016	0.7	1,016.7	629,329	\$1,219,202.9	\$823.9	\$1,220,026.8	\$755,197
F-1	42	450	1.78	451.78	18,975	\$539,700	\$2,142.86	\$541,842.9	\$22,757.401
F-4	68	360.5	1.661	362.161	24,627	\$432,600	\$1,985.3	\$434,585.3	\$29,515

## 14. ESTIMATE OF COST TO FEDERAL GOVERNMENT

<sup>4</sup> Estimates in Tables 3, 4 and 5 may reflect rounding errors and may not precisely correspond to estimates in the Form I-83.

<sup>5</sup> The total incremental burden and cost for Form 20-F are sums of the amounts in Tables 1 and 2, above, representing estimates based on whether the form is used to file an annual report (Table 1) or a registration statement (Table 2).

The estimated cost of preparing the proposed amendments is approximately \$50,000.

## 15. EXPLANATION OF CHANGES IN BURDEN

For purposes of the PRA, we estimated, in the Proposing Release, the total annual increase in the paperwork burden for all affected companies to comply with our proposed collection of information requirements to be approximately 7,472 hours of in-house company personnel time and to be approximately \$1,659,000 for the services of outside professionals.<sup>6</sup> These estimates included the time and the cost of preparing and reviewing disclosure and filing documents. Our methodologies for deriving the above estimates are discussed below.

Our estimates represented the burden for all oil and gas companies that file annual reports or registration statements with the Commission. Based on filings received during the Commission's last fiscal year, we estimate that 241 oil and gas companies file annual reports and 67 oil and gas companies file registration statements. Most of the information called for by the new disclosure requirements, including the optional disclosure items, is readily available to oil and gas companies and includes information that is regularly used in their internal management systems. These disclosures include:

- Disclosure of reserves from non-traditional sources (i.e., bitumen, shale, coalbed methane) 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 company's progress in converting proved undeveloped reserves into proved developed reserves, including those that are held for five years or more and an explanation of why they should continue to be considered proved;
- Disclosure of technologies used to establish reserves in a company's initial filing with the Commission and in filings which include material additions to reserves estimates;
- The company's internal controls over reserves estimates and the qualifications of the technical person primarily responsible for overseeing the preparation or audit of the reserves estimates;
- If a company represents that disclosure is based on the authority of a third party that prepared the reserves estimates or conducted a reserves audit or process review, filing a report prepared by the third party; and
- Disclosure based on a new definition of the term "by geographic area."

We estimated that, on average, each company would incur a burden of 35 hours to prepare these disclosures in an annual report or registration statement.

The amendments also apply several disclosure items to foreign private issuers that previously did not apply to them. As noted above, many of these disclosure items, such as drilling activities, wells and acreage, require the issuer to provide more specificity

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<sup>6</sup> For administrative convenience, the presentation of the totals related to the paperwork burden hours have been rounded to the nearest whole number and the cost totals have been rounded to the nearest thousand.

about its business and property. Foreign private issuers that do not currently provide such specificity would incur an added burden to present such disclosures in their filings. In the Proposing Release, we estimated that this burden would be 20 hours per foreign private issuer.

We received few comments regarding our estimates. Several large oil companies, and an industry organization that primarily represents large oil companies, believed that the estimates were too low. They believed that the new rules and amendments would increase their burden by 10,000 to 15,000 hours per year. However, these commenters included the initial cost to change their internal systems to provide the new required disclosures in their estimates. Based on conversations with these commenters, the staff understands that they believed that the ongoing burden would be approximately one third of that estimate. For purposes of its Paperwork Reduction Act estimate, the staff considers the ongoing annual burden and spreads the initial transitional burden of compliance with new rules and regulations over a three year period.

In addition, these commenters indicated that the two most significant burdens that stemmed from the proposed use of different prices for disclosure and accounting purposes and the increased detail in disclosures that would result from the proposed definition of the term “geographic area” and the proposed disclosure by type of accumulation. It should be noted that these commenters have significant reserves spread worldwide. Some of these large companies have as much as 10,000 times the amount of reserves of the median oil and gas company. These large companies likely would be more significantly impacted by the level of detailed disclosure that the proposals would have required compared to the vast majority of oil and gas companies in our reporting system, which do not have such extensive global operations. Therefore, we do not believe that the estimate provided by those large oil and gas companies necessarily would be applicable to most oil and gas companies. However, in response to the concerns that they expressed, the final rules do not require the use of different prices for disclosure and full cost accounting purposes. We also intend to continue to work with the FASB to align the accounting standards with that pricing mechanism. In addition, we have significantly reduced the level of detailed geographic and product disclosure that the rules require. Finally, we are providing for a substantial transition period to allow companies to adjust their systems to comply with the new rules. We believe that these changes will help to mitigate the increased burden of the new rules.

Table 5 below illustrates the changes in cost and hour burdens from the burden estimates currently approved by OMB. Columns (A) and (B) represent the total hour and cost burden estimates for the respective forms under the proposed rules. Columns (C) and (D) represent the previous burden estimates most recently submitted to OMB. Columns (E) and (F) represent the change in burden from the previous estimates. Columns (G) and (H) represent the incremental hour and cost burden as a result of the proposed amendments. Columns (I) and (J) represent any adjustment, which encompasses any change in burden that is not attributable to the amendments. All changes to burden in this submission are attributable to the proposed amendments.

Requested Burdens		Current Burden		Change in Burden		Program Change		Adjustment	
Burden Hours (A)	Cost (1,000s) (B)	Burden Hours (C)	Cost (1,000s) (D)	Burden Hours (E)=(A)-(C)	Cost (1,000s) (F)=(B)-(D)	Burden Hours (G)	Cost (1,000s) (H)	Burden Hours (I)	Cost (1,000s) (J)

10	11,849	14,220	11,724	14,070	125	150	125	150	0	0
10-K	21,353,389	2,847,119	21,337,939	2,845,059	15,450	2,060	15,450	2,060	0	0
20-F	622,907	743,090	618,894	742,475	4,013	615	4,013	615	0	0
S-1	243,310	291,972	242,360	290,832	950	1,140	950	1,140	0	0
S-4	629,329	755,197	628,904	754,687	425	510	425	510	0	0
F-1	18,975	22,892	18,900	22,667	75	90	75	90	0	0
F-4	24,627	29,755	24,514	29,417	113	135	113	135	0	0

Table 5: Explanation of Changes in Burden

16. INFORMATION COLLECTIONS PLANNED FOR STATISTICAL PURPOSES

Not applicable.

17. EXPLANATION AS TO WHY EXPIRATION DATE WILL NOT BE DISPLAYED

Not applicable.

18. EXCEPTIONS TO CERTIFICATION

Not applicable.

**B. COLLECTION OF INFORMATION EMPLOYING STATISTICAL METHODS**

Not applicable.