Deferral of the Effective Date of SFFAS 38, *Accounting for Federal Oil and Gas Resources*

Statement of Federal Financial Accounting Standards

Exposure Draft

Written comments are requested by February 7, 2011

January 5, 2011
The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General established the Federal Accounting Standards Advisory Board (FASAB or "the Board) in October 1990. FASAB is responsible for promulgating accounting standards for the United States Government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

An accounting standard is typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. The proposed standards are published in an exposure draft for public comment. In some cases, a discussion memorandum, invitation for comment, or preliminary views document may be published before an exposure draft is published on a specific topic. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standard with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

Additional background information is available from the FASAB or its website:

- “Memorandum of Understanding among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board.”


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Washington, DC 20548
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January 5, 2011

TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

The Federal Accounting Standards Advisory Board (FASAB or the Board) is requesting comments on the exposure draft of a proposed Statement of Federal Financial Accounting Standards entitled, *Deferral of the Effective Date of SFFAS 38, Accounting for Federal Oil and Gas Resources*. A specific question for your consideration appears on page 6 but you are welcome to comment on any aspect of this proposal. If you do not agree with the proposed approach, your response would be more helpful to the Board if you explain the reasons for your position and any alternative you propose. Responses are requested by February 7, 2011.

All comments received by the FASAB are considered public information. Those comments may be posted to the FASAB's website and will be included in the project's public record.

We have experienced delays in mail delivery due to increased screening procedures. Therefore, please provide your comments in electronic form. Responses in electronic form should be sent by e-mail to fasab@fasab.gov. If you are unable to provide electronic delivery, we urge you to fax the comments to (202) 512-7366. Please follow up by mailing your comments to:

Wendy M. Payne, Executive Director  
Federal Accounting Standards Advisory Board  
Mailstop 6K17V  
441 G Street, NW, Suite 6814  
Washington, DC 20548

The Board's rules of procedure provide that it may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft.

Notice of the date and location of any public hearing on this document will be published in the *Federal Register* and in the FASAB's newsletter.

Tom L. Allen  
Chairman
Executive Summary

The Board is proposing to defer the effective date for Statement of Federal Financial Accounting Standards 38, *Accounting for Federal Oil and Gas Resources*, for one year. Under this proposal, the standards would become effective as required supplementary information for periods beginning after September 30, 2012, with earlier implementation encouraged.
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Question for Respondents

Respondents may offer a response to the specific question posed below, raise new issues, or respond generally. It is most helpful if your response includes an explanation for your position and any alternatives you propose.

Your responses should be sent by e-mail to fasab@fasab.gov. If you are unable to respond electronically, please fax your responses to (202) 512-7366 and follow up by mailing your responses to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6K17V
441 G Street, NW, Suite 6814
Washington, DC 20548

All responses are requested by February 7, 2011.

Q1. Do you agree or disagree with the proposed one-year deferral of the effective date of SFFAS 38, Accounting for Federal Oil and Gas Resources (see paragraph 2 and further discussion in paragraphs A1 through A7)? Please explain the reasons for your position in as much detail as possible.
Proposed Standards

Scope

1. This Statement applies to federal entities that report information about federal oil and gas resources in general purpose federal financial reports, including the consolidated financial report of the U.S. Government (CFR), in conformance with SFFAS 34, The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board.

Amendment to SFFAS 38

2. Paragraphs 5 and 30 of SFFAS 38, Accounting for Federal Oil and Gas Resources, are amended as follows:

   The standards are effective as RSI for periods beginning after September 30, 2012. Earlier implementation is encouraged.

Effective Date

3. This standard is effective upon issuance.

The provisions of this Statement need not be applied to immaterial items.
Appendix A: Basis for Conclusions

This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this Statement—not the material in this appendix—should govern the accounting for specific transactions, events, or conditions.

Project History

A1. FASAB issued Statement of Federal Financial Accounting Standards (SFFAS) 38, Accounting for Federal Oil and Gas Resources, on April 13, 2010. This standard requires the value of the federal government’s estimated petroleum royalties from the production of federal oil and gas proved reserves be reported in a schedule of estimated federal oil and gas petroleum royalties. In addition, this standard requires the value of estimated petroleum royalty revenue designated for others be reported in a schedule of estimated federal oil and gas petroleum royalties to be distributed to others. These schedules are to be presented in required supplementary information (RSI) as part of a discussion of all significant federal oil and gas resources under management by the entity. SFFAS 38 is effective as RSI for periods beginning after September 30, 2011 with earlier implementation encouraged.

A2. It is the Board’s intent that the information required by SFFAS 38 transitions to basic information after being reported as RSI for a period of three years. Prior to the conclusion of the three-year RSI period, the Board plans to make a determination as to whether the information will transition to basic information as financial statement recognition or note disclosure. SFFAS 38 will remain in effect until such time a determination is made.

A3. On September 30, 2010, FASAB staff was informed that the Department of the Interior (DOI) was considering requesting a one-year deferral of the effective date of SFFAS 38 due to the recent reorganization of the Minerals Management Service (MMS) into several different bureaus under the newly created Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE). MMS had been the component entity responsible for collecting royalties and charged with preparing the information to be reported under SFFAS 38.

A4. On October 7, 2010, FASAB staff notified a BOEMRE representative that in order to issue an amendment to the standard by September 2011, staff would need to receive DOI’s formal deferral request in time to prepare a draft exposure draft (ED) for the December 2010 board meeting.
Appendix A: Basis for Conclusions

Request for Deferral

A5. The formal request was received from BOEMRE on November 18, 2010. The request explained that MMS’s successor organization will be divided into three new entities. First, the BOEMRE and the Bureau of Safety and Environment Enforcement will divide the duties of the former Offshore Energy and Minerals Management organization, with the former managing the development of conventional and renewable resources and minerals on the Outer Continental Shelf, and the latter providing safety and environmental oversight. These new bureaus will report to the Assistant Secretary of Land and Minerals Management. Second, the Office of Natural Resources Revenue (ONRR) will perform the roles of the former Minerals Revenue Management organization and report to the Assistant Secretary for Policy, Management and Budget.

A6. BOEMRE’s request stated that many issues and challenges have arisen as a direct result of these organizational changes that will greatly complicate the implementation of SFFAS 38 for fiscal year 2012. Accordingly, a one-year deferral of SFFAS 38 was requested.

A7. While a reorganization in and of itself would not normally be a justification for deferring a standard, the Board members noted that the nature and extent of the MMS reorganization goes above and beyond what would be considered within the normal course of operations. The Board therefore approved the one-year deferral, but emphasized that earlier implementation is encouraged and strongly urged that the standard be implemented for 2012 if at all possible.
## Appendix B: Abbreviations

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<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>BOEMRE</td>
<td>Bureau of Ocean Energy Management, Regulation and Enforcement</td>
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<td>DOI</td>
<td>Department of the Interior</td>
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<td>ED</td>
<td>Exposure Draft</td>
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<tr>
<td>FASAB</td>
<td>Federal Accounting Standards Advisory Board</td>
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<td>MMS</td>
<td>Minerals Management Service</td>
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<td>ONRR</td>
<td>Office of Natural Resources Revenue</td>
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<td>RSI</td>
<td>Required Supplementary Information</td>
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<td>SFFAS</td>
<td>Statement of Federal Financial Accounting Standards</td>
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