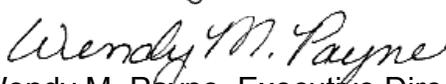




November 24, 2010

Memorandum

To: Members of the Board
From:  Julia E. Ranagan, Assistant Director
Through:  Wendy M. Payne, Executive Director

Subject: Proposed Draft Exposure Draft of Statement of Federal Financial Accounting Standards (SFFAS) XX, *Deferral of the Effective Date of SFFAS 38, Accounting for Federal Oil and Gas Resources*¹ – **Tab F**

OBJECTIVE

The purpose of this memorandum is to transmit a draft exposure draft (ED) of a Statement of Federal Financial Accounting Standards (SFFAS) that proposes to defer the effective date of SFFAS 38, *Accounting for Federal Oil and Gas Resources*, for one year. The one-year deferral would provide the Department of Interior (DOI) with additional time to adjust to a recent major reorganization of the primary bureau within DOI that will be responsible for preparing the information required by SFFAS 38. A specific question for your consideration appears on page 2 of this transmittal memo.

ATTACHED MATERIAL

The following documents are attached to this transmittal memorandum:

- Attachment 1** – the proposed due process timeline that lays out the timeframe for issuing the final SFFAS
- Attachment 2** – the draft ED of SFFAS XX, *Deferral of the Effective Date of SFFAS 38, Accounting for Federal Oil and Gas Resources*.
- Attachment 3** – the official request for deferral provided by the Department of the Interior

¹ The staff prepares board meeting materials to facilitate discussion of issues at the board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

NEXT STEPS

If the board approves the deferral, staff will incorporate member comments into the draft ED and email a pre-ballot draft ED to members for review on Wednesday, January 19, 2011. See Attachment 1 for the full timeline.

BACKGROUND

In April 2010, FASAB issued SFFAS 38, *Accounting for Federal Oil and Gas Resources*. SFFAS 38 requires the value of the federal government's estimated petroleum royalties from the production of federal oil and gas proved reserves to be reported in a schedule of estimated federal oil and gas petroleum royalties. In addition, the standard requires the value of estimated petroleum royalty revenue designated for others to 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 as issued will be effective as RSI for periods beginning after September 30, 2011, with earlier implementation encouraged. It is the board's intent that the information required by the Statement transition 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.

On September 30, 2010, FASAB staff was informed that the Department of 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.

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 ED for the December 2010 board meeting.

The formal request was received from DOI on November 18th and is attached to this transmittal memo as Attachment 3.

Question for the board: Do you approve the one-year deferral of SFFAS 38?
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If you require additional information or wish to suggest another alternative not considered in the staff paper, please contact me as soon as possible. If you have any questions or comments, please contact me by telephone at 202.512.7377 or by email at ranaganj@fasab.gov. Please note that I will be out of the office until Wednesday, December 8, 2010. If you would like a response prior to that time, please contact Wendy Payne by telephone at 202.512.7357 or by e-mail at paynew@fasab.gov.

Attachments (3)

**Statement of Federal Financial Accounting Standards XX:
Deferral of the Effective Date of SFFAS 38**

Proposed Due Process Timeline

Estimated Date	Required Time Period, if applicable	Step
November 1 – 23, 2010		Staff prepares draft exposure draft (ED).
November 24, 2010		Draft ED submitted to board members with binders for review and discussion at the December board meeting.
December 16 – 17, 2010		Members discuss draft at public meeting.
December 20, 2010 – January 18, 2011		Staff incorporates member comments into draft ED.
January 19, 2011		Staff emails pre-ballot draft ED to members for review.
January 19 – 31, 2011	5 – 10 working days	Board members review and provide comments to staff.
February 3, 2011		Staff emails ballot draft ED and ballot to members for approval.
February 18, 2011	10 working days	Ballots Due – Members not responding by February 25, 2011 are considered to have abstained.
February 28, 2011 (or earlier) – March 31, 2011	30 – 90 days	ED will be released for comment once six affirmative votes have been received.
April 15, 2011		The board binders distributed for April meeting will include an analysis of comment letters received.
April 27 – 28, 2011	Next public meeting	All comments would be considered by the board members at the next public meeting.
May 23, 2011		Staff emails pre-ballot draft SFFAS to members for review.
May 23 – 31, 2011	5 – 10 working days	Board members review and provide comments to staff.
June 3, 2011		Staff emails ballot draft SFFAS and ballot to members for approval.
June 17, 2011	10 working days	Ballots Due – Members not responding by June 23, 2011 are considered to have abstained.
June 27 – September 26, 2011	90 days	Proposed SFFAS sent to sponsors for 90-day review period.
September 27, 2011		If sponsors do not object, final SFFAS would be issued.



Federal Accounting Standards Advisory Board

**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 March 31, 2011

February 28, 2011

Working Draft – Formal Comments are Not Requested on This Draft

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

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.”
- “Mission Statement: Federal Accounting Standards Advisory Board”, exposure drafts, Statements of Federal Financial Accounting Standards and Concepts, FASAB newsletters, and other items of interest are posted on FASAB’s website at: www.fasab.gov.

Federal Accounting Standards Advisory Board
441 G Street, NW, Suite 6814
Mail stop 6K17V
Washington, DC 20548
Telephone 202-512-7350
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Federal Accounting Standards Advisory Board

February 28, 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 March 31, 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 insert date.

Q1. Do you agree or disagree with the proposed one-year deferral of SFFAS 38, *Accounting for Federal Oil and Gas Resources*? Please explain the reasons for your position in as much detail as possible (see discussion in pars. A1 through AX).

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* (FASB).

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, ~~2011~~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. On September 30, 2010, FASAB staff was informed that the Department of Interior (DOI) was considering requesting a one-year deferral of the effective date of SFFAS 38, *Accounting for Federal Oil and Gas Resources*, 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.
- A2. 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.
- A3. The formal request was received from DOI on November 18, 2010. The request (see Appendix C) offered the following justifications:
 - a. (Summary to be developed if the Board approves the request)

Appendix B: Abbreviations

BOEMRE	Bureau of Ocean Energy Management, Regulation and Enforcement
CFR	Consolidated Financial Report
DOI	Department of the Interior
ED	Exposure Draft
FASAB	Federal Accounting Standards Advisory Board
MMS	Minerals Management Service
RSI	Required Supplementary Information
SFFAS	Statement of Federal Financial Accounting Standards
U.S.	United States

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United States Department of the Interior

BUREAU OF OCEAN ENERGY MANAGEMENT, REGULATION, AND ENFORCEMENT

Washington, DC 20240

NOV 18 2010

Ms. Wendy M. Payne, CPA CGFM
Executive Director
Federal Accounting Standards Advisory Board
441 G Street, N.W., MS6K17V
Washington, D.C. 20548

Mr. Donald Geiger
Acting Director
Office of Financial Management and Deputy Chief Financial Officer
Department of Interior
1849 C Street, N.W., Room 2551
Washington, D.C. 20240

Dear Ms. Payne and Mr. Geiger:

I am writing to request a Deferral of Statement of Federal Financial Accounting Standard (SFFAS) 38, *Accounting for Federal Oil and Gas Resources* for the Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE) within the Department of the Interior.

On April 13, 2010, the Federal Accounting Standards Advisory Board (FASAB) issued a new Statement of Federal Financial Accounting Standard (SFFAS) 38, *Accounting for Federal Oil and Gas Resources*. The Standard requires the value of federal proved reserves, both onshore and offshore, be estimated and reported in a series of schedules and disclosures as Required Supplementary Information (RSI) in the DOI Annual Financial Report. Implementation is required in fiscal year (FY) 2012, with RSI reporting for 3 years. Prior to the conclusion of the 3-year RSI period, the Board plans to make a determination whether to transition to financial statement recognition or Note disclosure.

On May 19, 2010, Secretary Salazar announced the restructuring of MMS by issuing Secretarial Order No. 3299. The structure established in Secretarial Order No. 3299 reflects Interior's conclusions regarding how best to achieve the goals of mission independence, appropriate checks and balances, and rigorous oversight, while maintaining ongoing communication and coordination necessary to facilitate an effective, efficient, and predictable process. As an interim step, MMS was also renamed the Bureau of Off-shore Energy Management, Regulation and Enforcement (BOEMRE).

Specifically, 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 OCS, 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. On October 1, 2010 ONRR transferred to the Assistant Secretary for Policy, Management and Budget.

As a result of the organizational changes many issues and challenges have arisen which will complicate the implementation of SFFAS 38. Accordingly, a one-year deferment of SFFAS 38 implementation is requested.

Many decisions remain to be made regarding the remaining phases of the reorganization and the final make-up of its successor entities and the accounting and reporting support for each of the entities. In FY 2011, the Finance Division which is within the Administration and Budget directorate of BOEMRE will provide all accounting and reporting support to ONRR. Reporting responsibility has not been fully defined for years subsequent to FY 2011, so it is not clear where within the organization the personnel with the requisite knowledge to implement the standard will be. It is highly likely that new personnel will need to be trained and fully indoctrinated to the requirements of the new standard. Responsibilities have become blurred as the organizations have split, and extensive coordination will be required to resolve these and many other issues.

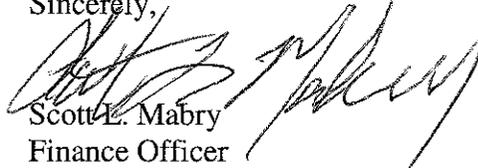
Establishing new accounting processes and organizational structures for new entities will be a significant effort, requiring intensive staff resources potentially at the same time testing or implementation of SFFAS 38 would be underway. The same staff would be responsible for accomplishing both requirements thus creating a risk that sheer workload could hinder a successful implementation of the new standard.

Additionally, key contributors to the implementation in now-separated Bureaus (such as Offshore Economics Division – formerly OEMM, now in BOEMRE) are also undergoing significant additional workload due to the administration's new requirements and extensive work related to the BP oil spill as well as major organizational changes. These multiple priorities could significantly constrict the time available to engage in developing the processes for reporting as required by new standard.

Additionally, further analysis should be given to some of the underlying assumptions used in developing the requirements of the standard. The standard was developed with an underlying assumption that the entity collecting the royalty amounts would also be the entity with ownership and managing authority over the leased property from which the commodity would be produced. With the reorganization this assumption is no longer true. These changes could have significant impacts on the proposed reporting requirements in light of the new organizational structure.

Based on the uncertainties faced over the next two years as well as the workload associated with the reorganization and meeting the needs of established priorities we are requesting a deferment of the implementation of SFFAS 38.

Sincerely,

A handwritten signature in black ink, appearing to read "Scott E. Mabry", written over the typed name and title.

Scott E. Mabry
Finance Officer