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## **Latest Themes in SEC Comment Letters**

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# PURPOSE OF PRESENTATION

- Nature of SEC comment letters
- Why we review SEC comment letters
- What recent trends are being discussed?
- Recent Comment letter topics
  - Development Plans
    - 5-Year Rule
    - Capital Availability
    - PUD Conversion Rate
    - Commitment
  - Contingent and Prospective Resources
  - Third Party Reports



- When public filers submit documents to the SEC for public disclosure, comment letters are the first direct form of communication between the SEC and the filer.
- Filers are obligated to respond to comments submitted by the SEC staff.
- Letters (and returned correspondence) become public after the issues discussed are concluded to the satisfaction of the SEC.
  - Some redaction of responses is permitted under certain circumstances.

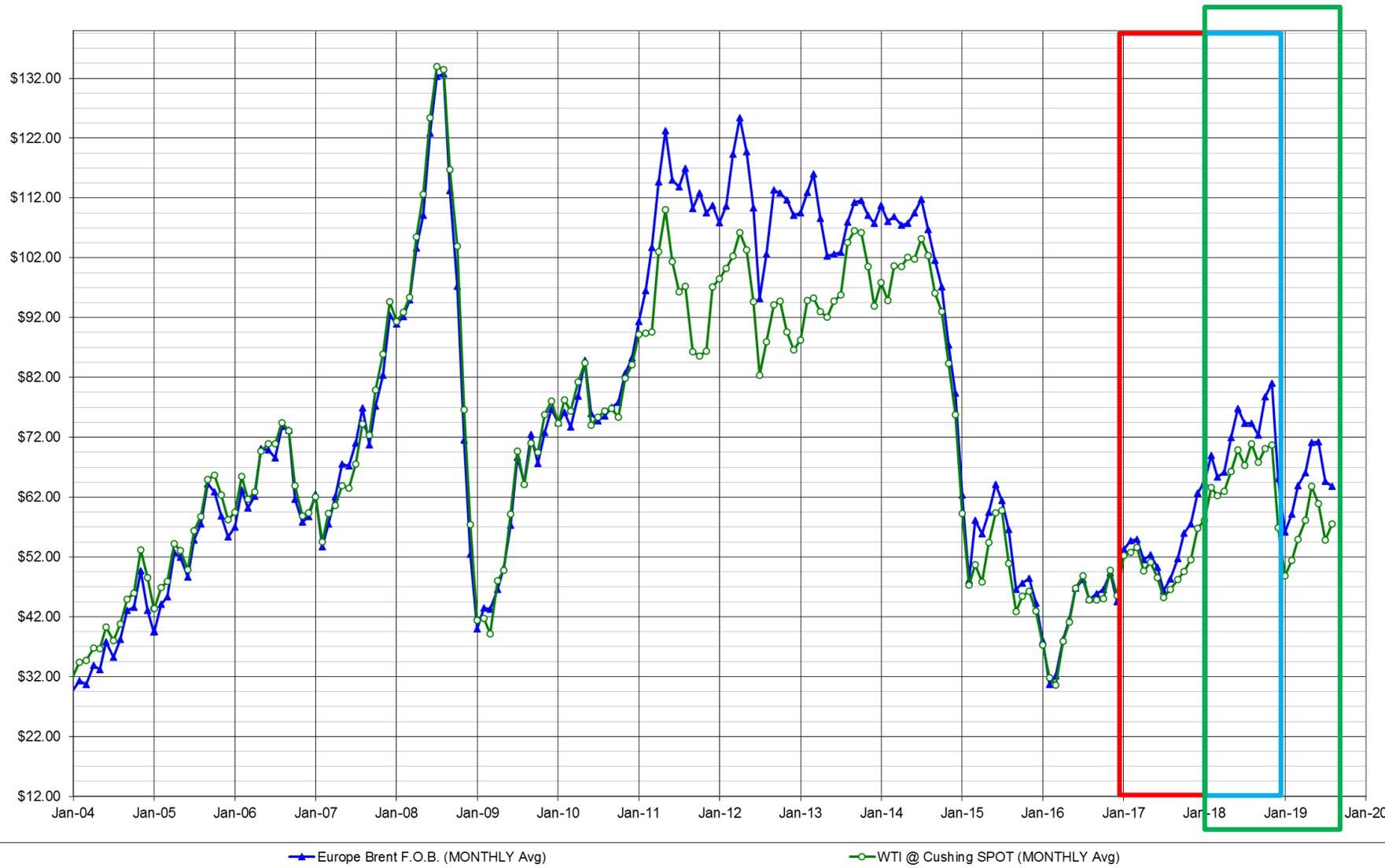
- Comment letters represent the only other written indication of how the SEC staff interprets or expects the rules to be interpreted by filers other than the Compliance and Disclosure Interpretations (C&DIs).
- C&DIs are created for the oil and gas industry infrequently.
  - Last C&DI issued in 2013.
- Comment letters allow us to understand thinking of SEC staff
  - But comment letters cannot change the regulations.
  - Comment letters should not be considered definitive for many circumstances.

# WHAT LETTERS ARE BEING DISCUSSED TODAY

- Looking at letters sent to oil and gas filers (SIC = 1311 and 2911) between January 1, 2018 to September 1, 2019.
- Comments respond to many types of filing, predominately 10-K forms for years ending 12/31/2017.

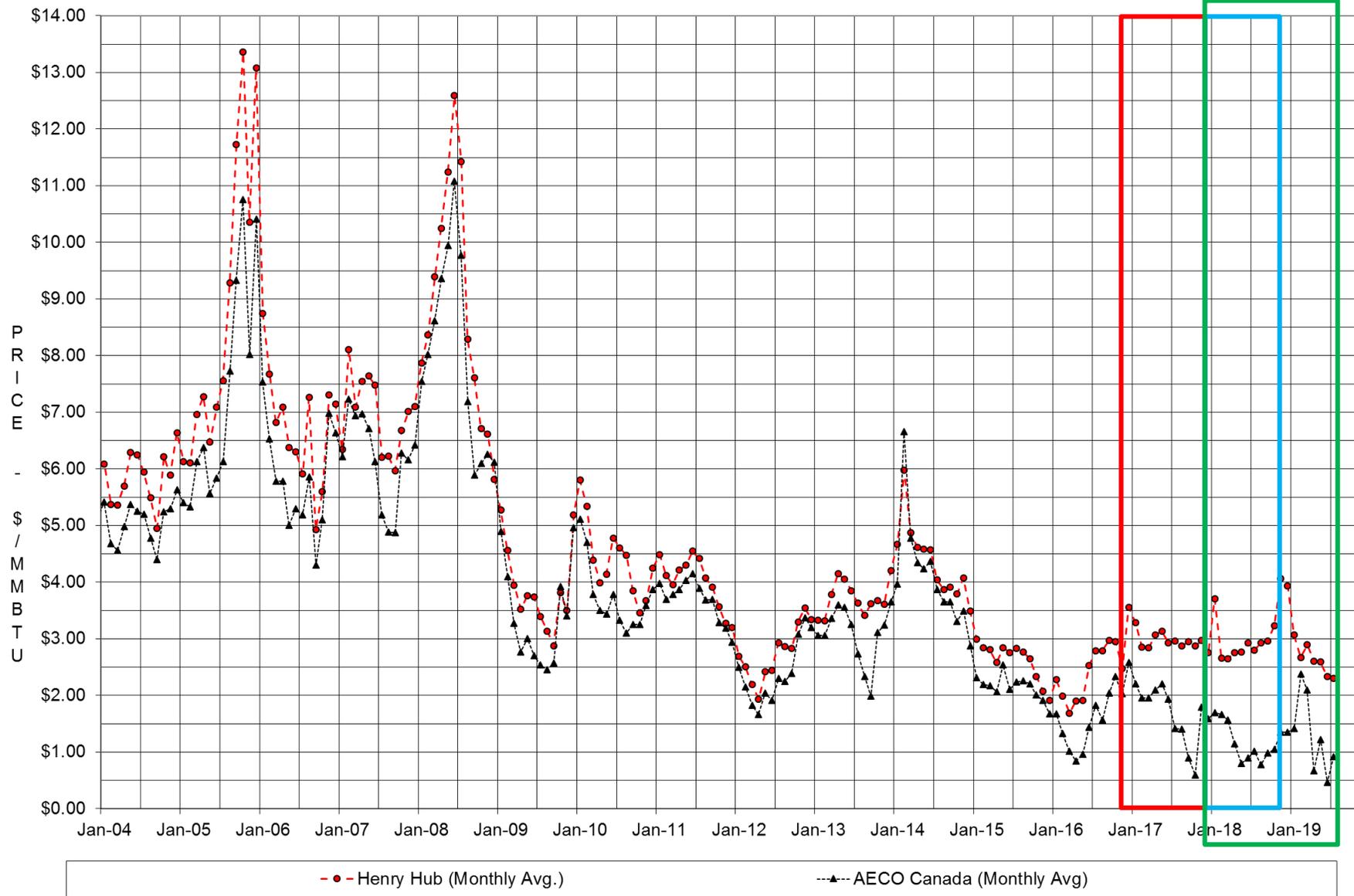
Before Screening		After Screening	
35	Companies	32	
60	Letters	50	
540	Reserves Related Comments	273	

# PRICING BACKDROP



- Letters Pulled from Jan 1 2017 onward (Green Box)
- Includes many 10K (20-F) for the year ending 12/31/2017 (Red Box)
- Few comments for 12/31/2018 so far (Blue Box)

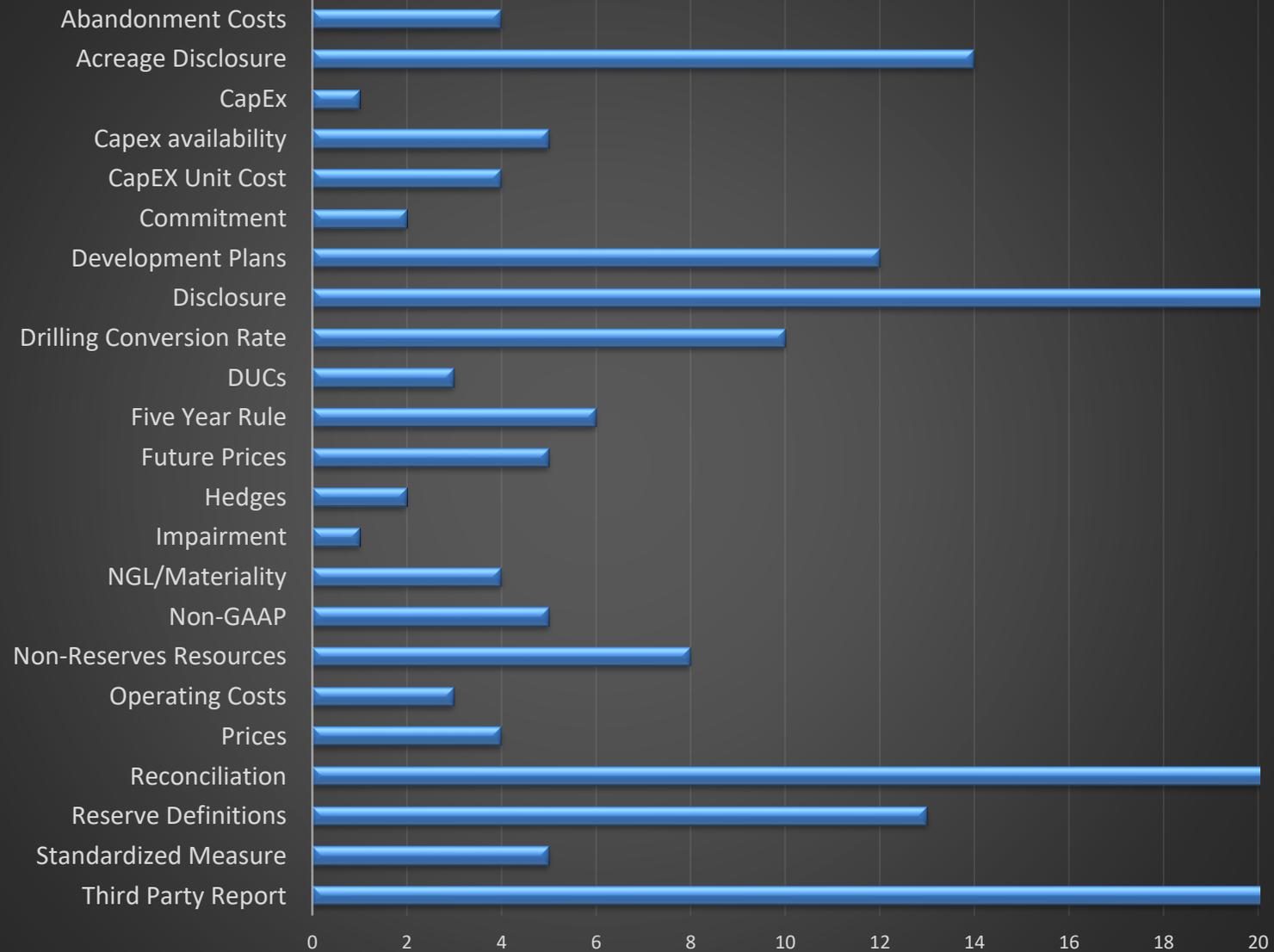
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# HOT-BUTTON TOPICS

- Development Plans
  - 5-Year Rule
  - Capital Availability
  - PUD Conversion Rate
  - Commitment
- Contingent and Prospective Resources
- Third Party Reports



## 1. Development Plans

- 5-Year Rule
- Capital Availability
- PUD Conversion Rate
- Commitment

## 2. Contingent and Prospective Resources

## 3. Third-Party Reports

Overall fewer letters and fewer comments.  
Some comments drawn from sources other than 10-K & 20-F

***Any stressed** portions of  
SEC Comment Letter quotations are  
added emphasis by Ryder Scott*

# WHAT WE ARE AVOIDING

“We issued comments on the above captioned filing. . . , we issued a follow-up letter informing you that those comments remained outstanding and unresolved, and absent a substantive response, we would act consistent with our obligations under the federal securities laws.

As you have not provided a substantive response, we are terminating our review and will take further steps as we deem appropriate. These steps include releasing publicly, through the agency's EDGAR system, all correspondence, including this letter, relating to the review of your filing, consistent with the staff's decision to publicly release comment and response letters relating to disclosure filings it has reviewed.”

(SEC Staff to Filer)

- The SEC staff is quite clear that the 5-year rule applies from the *initial date of disclosure*, not the specific filing in question.
  - When was the original date of booking, or some clients refer to this as the “born-on-date.”
- SEC wants to understand the movement of PUDS on and off the books, and the impact year-on-year.

*“We note disclosure indicating there are no PUD reserves scheduled to be developed beyond five years of initial disclosure as PUD reserves with the exception of six sidetrack wells from existing wellbores. Please expand the disclosure to provide the net quantities of such reserves, if material.”*

(SEC Staff to Filer)

*“The Company has revised its disclosure ... to provide the net quantities of reserves for the six sidetrack wells.”*

*(Filer to SEC Staff)*

*“You have revised your disclosed quantities of PUDs in the current year and in prior years due to the requirement per Rule 4-10(a)(31) of Regulation S-X to develop PUDs within five years of the initial booking date. Provide us with a description of the process through which changes to your development schedule are determined by management and approved by the Board of Directors. As part of your response, specifically address the manner in which decisions are made to remove PUDs that will not be developed within five years of their initial booking as proved reserves.”*

(SEC Staff to Filer)

# 5-YEAR RULE

*“ . . . The development plan is reviewed and approved annually by senior management and by our Board of Directors . . . , only PUDs that are reasonably certain to be drilled within five years of booking and are supported by final investment decision to drill them are included in our development plan.*

*A detailed review of the previously-approved development plan is performed by in-house reservoir engineers on a quarterly basis to validate reserves classifications for appropriateness. This analysis includes reviewing (i) the aging of wells classified as PUDs to confirm they remain economic, (ii) the PUD development schedule for consistency with the approved development plan and (iii) that PUDs are scheduled to be developed within five years of initial booking.*

*Our Vice President, Reservoir Engineering and Planning, approves all aspects of the reserve report, including the PUD development schedule, which provides the basis for removing PUDs that will not be developed within five years. On an annual basis, our Vice President, Reservoir Engineering and Planning reviews the reserve report with senior management and the Audit Committee of the Board of Directors. This review includes a discussion of any material changes to reserves, including PUD reserves changes and categorization.”*

*(Filer to SEC Staff)*

- A number of filers receive comments regarding the availability of capital resources needed to develop the proved undeveloped reserves that are being disclosed.
- “The definition of reserves under Rule 4-10(a)(26) of Regulation S-X indicates that “[t]here must exist, or there must be a reasonable expectation that there will exist, ...all financing required to implement the project.”
- Staff challenges filers as to whether the deficiency in capital resources could lead to the filer needing a longer time frame than that allowed by the 5-year rule.

*“We note the disclosure describing ... capital resources and liquidity, including the November 2017 amendment to increase the credit facility borrowing base to \$70 million. We also note the disclosure ... regarding ... full year 2017 capital expenditure forecast of approximately \$89.6 million for drilling and completion activities. These figures would suggest that .... may not be able to fund the development and conversion of the proved undeveloped reserves disclosed ... within five years of initial disclosure as would be required of a public company pursuant to Rule 4-10(a)(31)(ii) of Regulation S-X. Please refer to the definition of reserves under Rule 4-10(a)(26) of Regulation S-X and expand the disclosure here or under the section “Proved Reserves” on page 141 to explain why there is a reasonable expectation that there will be the financing required to develop all of the proved undeveloped reserves ...”*

(SEC Staff to Filer)

*“The Staff is advised that we have revised ... under ‘Proved Reserves’ to explain why there is a reasonable expectation that ... will require financing to develop all of the proved undeveloped reserves disclosed as of December 31, 2016.”*

*(Filer to SEC Staff)*

# PUD CONVERSION RATE

- PUD Conversion is also tied to the 5-Year Rule.
- As in prior years, the SEC monitors the past rate of conversion of PUD to Developed Reserves and reviews whether it is sufficient to satisfy the 5-Year Rule.

*“...We note you disclose that you converted 38 MMboe and 32 MMboe of proved undeveloped reserves to developed status during 2016 and 2017, representing 13% and 10% of the prior year-end proved undeveloped reserves. As these rates of development would not be sufficient to develop all of your proved undeveloped reserves over a five year period from initial booking, you should disclose the reasons for the limited progress made during 2016 and 2017 and explain whether, and to what extent and in what manner, your plans relating to the conversion of your remaining proved undeveloped reserves have changed to ensure that your reserve estimates adhere to the criteria in Rule 4-10(a)(31)(ii) of Regulation S-X. Please note that the disclosure under Item 1203(c) of Regulation S-K should inform readers of progress, or lack thereof, and any factors that impacted progress in converting proved undeveloped reserves to developed status. ”*

(SEC Staff to Filer)

*“...Our proved undeveloped reserves at December 31, 2016 and 2015, were comprised primarily of onshore unconventional fields and offshore fields with multi-phase developments, including the ....., that was sold in 2017. Excluding the impact of our {offshore} operations, which had 110 million barrels of oil equivalent (“mmboe”) and 118 mmboe of proved undeveloped reserves at December 31, 2016 and 2015, respectively, we converted 16% of December 31, 2016 proved undeveloped reserves to proved developed reserves during 2017, and 22% of our December 31, 2015 proved undeveloped reserves to proved developed reserves during 2016. As disclosed ... projects that have proved reserves, which have been classified as undeveloped for a period in excess of five years, totaled 14 mmboe, or 1% of total proved reserves at December 31, 2017. Our proved undeveloped reserves are calculated in accordance with Rule 4-10(a)(31)(ii) of Regulation S-X.”*

(Filer to SEC Staff)

- Many comments include a combination of subjects.
- Commitment is a common element of comments, especially those discussing development plans, the 5-year rule, and capital availability.

*“...The limited progress made in converting your PUDs during the fiscal year ended December 31, 2017 ... is attributed in part to ‘changes to your development schedule that affected [y]our well mix and timing’ .... We also note the remark that your development program for 2017 ‘looked much different than the set of wells [you] expected to drill.’ In light of these statements and your recent PUD conversion rates, tell us how you are able to demonstrate a commitment to your adopted development plan. Refer to Rule 4-10(a)(31)(ii) of Regulation S-X and question 131.04 of the Compliance and Disclosure Interpretations regarding Oil & Gas Rules.”*

(SEC Staff to Filer)

*“...the overall increase in unanticipated acquisition and divestiture activities... required the Company to adjust the development plan it adopted as of December 31, 2016.*

*....the Company also believes that the aggregate level of acquisition activity undertaken in recent years is unlikely to be replicated in size or scope in the near term. Accordingly, management does not consider the changes to the development plan it adopted as of December 31, 2016 to be a reflection of the Company’s lack of commitment to such plan at the time of its adoption, or indicative of a lack of commitment to the development plan adopted as of December 31, 2017...*

*...all of the Company’s planned 2018 PUD locations remain scheduled for conversion during the year.... As of April 30, 2018, seven of the Company’s scheduled PUD locations have been converted to PDP, eight of the Company’s scheduled PUD locations were undergoing drilling and completion activities and the Company’s remaining 22 scheduled PUD locations were scheduled to be drilled and converted during the remainder of 2018... ”*

(Filer to SEC Staff)

*“.... If [company staff] determines that any of the potential PUD locations that it identified may be unlikely to be transferred from PUDs to proved developed reserves within [the timeline], such locations are then reviewed by the Company’s senior management to determine whether...the Company expects to have sufficient committed capital and other resources necessary to commit to the proposed development plan. If the Company’s senior management determines that a proposed PUD location is not reasonably certain to be drilled within five years of initial booking or the Company does not have sufficient committed capital to pursue its development, that PUD location is excluded from the Company’s estimation of its proved reserves.”*

(Filer to SEC Staff)

- Numerous comments reviewed addressed filers describing disclosures of contingent or prospective resources.
- This is normally not allowed.
- Filers normally ended up asking to not modify their existing filing, but agreeing to not make such disclosures in the future.

*“...You disclose that the unrisks recoverable resource potential relating to the drilling inventory attributed to your prospects is ‘estimated to be 800 mmboe (million barrels oil equivalent) on a gross (100% working interest).’ We note similar disclosure in your filing on ... for the period ended December 31, 2017 along with a reference to your net working interest for the ... Prospects which ‘could hold over 50 mmboe recoverable oil and gas.’ The Instruction to Item 1202 of Regulation S-K generally prohibits disclosure in any document publically filed with the Commission of the estimates and/or the values of oil or gas resources other than reserves. If your estimates do not fulfill the requirements to be classified as reserves under Rule 4-10(a) of Regulation S-X, please revise your filing in each occurrence to exclude such disclosure.”*

(SEC Staff to Filer)

*“...’Although the Company believes that the referenced amounts represent a reasonable estimate of the potential productivity in the respective areas, and are therefore not misleading, the Company acknowledges the directive set forth in the Instruction to Item 1202 of Regulation S-K, and that such amounts cannot be classified as reserves as defined in Rule 4-10(a) of Regulation SX. However, given that the digression was neither intended or materially misleading, the Company respectfully requests that it be permitted to comply with the Staff’s comment in future filings rather than amend its Annual Report simply to delete each of the two digressions. In this regard, the Company will not include estimates and/or values of oil resources other than reserves in its future documents it files with the Commission...”*

(Filer to SEC Staff)

# THIRD-PARTY REPORTS

- When present, the SEC reviews third party reserves reports as well as the rest of the filing.
- Comments arise from information that should be present in the third party reserves report which is missing.
- Comments also arise from inconsistencies between the third party report and the rest of the filing.

*“...The report ... includes volumes attributable to probable and possible reserves which are not included in the filing. Revise your filing to include these volumes, together with the disclosure required by Item 1202(a)(5) of Regulation S-K. Alternatively, obtain and file a revised report that excludes these volumes.”*

(SEC Staff to Filer)

# THIRD-PARTY REPORTS

*“...The Company has obtained and filed a revised report appearing at ....”*

(Filer to SEC Staff)

1. Relatively few recent comments on prices.
2. Focus still on development plans.
  - a. Blended comments mixing 5-year rule as part of the definition of reserves and the availability of CAPEX to complete wells in this time.
3. SEC pencils still very sharp when comparing past development spending to projected PUD spending and planned drilling.
4. Numerous comments on non-reserve resources and third-party reports.



# Q & A