

**REQUEST FOR PUBLIC COMMENT REGARDING THE PROJECT GROUP'S
PROPOSED AMENDMENT TO ADD CROSS REFERENCE SHEET STANDARDS FOR
NASAA GUIDELINES FOR REGISTRATION OF OIL AND GAS PROGRAMS.**

To: NASAA Members

From: NASAA Direct Participation Programs Policy Project Group

Date: September 21, 2011

The NASAA Board of Directors has authorized release for public comment the following amendment to add cross reference sheets in the NASAA Guidelines for the Registration of Oil and Gas Programs. This is to aid the examiner and applicant for registration in complying with the NASAA Guidelines. The proposed cross reference sheets do not add or detract from existing Guideline provisions. Paraphrased terms for the cross reference sheets are not intended to interpret Guideline provisions or offer less compliance to the applicant. The public comment period will last for 30 days from the date of release listed above.

Most Statements of Policy define the term "Cross Reference Sheet," require it to be filed and offer the format of a cross reference. Applicants often file cross-reference sheets voluntarily to expedite the review process. First time applicants that are unfamiliar with the examination of the offerings by NASAA jurisdictions may not have knowledge of the requirement to file a cross reference sheet or the format to use with the application. The proposal will assist issuers that may be filing applications for registration. The proposal will provide the Administrator with the authority to require the cross-reference sheet.

Comments on the proposed amendments in this proposal are invited. To facilitate consideration of comments, please send comments to each Project Group members and the NASAA Legal Department. An addressee roster is set forth below. We encourage, but do not require comments to be submitted by e-mail. We also welcome any general comments on cross reference sheets and the need to file them.

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A) Amend Section I.A.2. of the Oil and Gas Guidelines to add a Cross Reference Sheet requirement. Insert new section I.B.9. to add a definition for ‘Cross Reference Sheet’. Reorder existing definitions I.B.9. through I.B.30. to I.B.10. through I.B.31. Add new section XI. “Oil and Gas Guidelines Cross Reference Sheet” and XI.A. “Cross Reference Sheet Requirement and General Instructions.” Add sample cross reference sheet NASAA Guidelines for the Registration of Oil and Gas Programs.

Amend section I.A.2.

2. Where the individual characteristics of specific programs warrant modification from these standards, they will be accommodated, insofar as possible, while still being consistent with the spirit of the guidelines. When required by the administrator, a cross reference sheet shall be furnished with the application.

Add a new section I.B.9.

9. *Cross Reference Sheet*: A compilation of the guideline sections, referenced to the page of the prospectus, program agreement, or other exhibits, and justification of deviation from the guidelines.

Reorder sections I.B.9. through I.B.30. to I.B.10. through I.B.31.

10. *Development Well*
11. *Direct Costs*
12. *Exploratory Well*
13. *Farmout*
14. *Horizon*
15. *Independent Expert*
16. *Landowner’s Royalty Interest*
17. *Non-Capital Expenditures*
18. *Operating Costs*
19. *Organization and Offering Expenses*
20. *Overriding Royalty Interest*
21. *Participant*
22. *Person*
23. *Production Purchase or Income Program*
24. *Program*
25. *Prospect*
26. *Proved Reserves*
27. *Roll-Up*
28. *Roll-Up Entity*
29. *Sponsor*
30. *Subordinate Interest*
31. *Working Interest*

Add a new section XI. Oil and Gas Guidelines Cross Reference Sheet and X.I.A. Oil and Gas Guideline Cross Reference Sheet Requirement and General Instructions.

XI. Oil and Gas Guidelines Cross Reference Sheet.

A. Cross Reference Sheet General Instructions.

1. The cross reference sheet, as required by the Administrator in section I.A.2. of these guidelines, shall be included with the application for registration.
2. Sections which are not applicable should be noted as such and explained.
3. Provisions which vary from the Guidelines must be explained by footnote. Footnotes should be numbered sequentially in the column designated Footnotes and should be presented on a rider or presented as endnotes.
4. The last page of the Cross Reference Sheet should be signed by the person executing the Form U-1 or other registration application.

Add Oil and Gas Guidelines Cross Reference Sheet.

OIL AND GAS PROGRAMS GUIDELINES CROSS REFERENCE SHEET

Name of Applicant _____

<u>Guideline Section</u>	<u>Section Number</u> <u>Program Agreement</u>	<u>Page Number</u> <u>Prospectus</u>	<u>Endnote</u>
I.B. Definitions			
1. Administrative Costs	_____	_____	_____
2. Administrator	_____	_____	_____
3. Affiliate	_____	_____	_____
4. Assessments	_____	_____	_____
5. Capital Contributions	_____	_____	_____
6. Capital Expenditures	_____	_____	_____
7. Carried Interest	_____	_____	_____
8. Cost	_____	_____	_____
9. Cross Reference Sheet	_____	_____	_____
10. Development Well	_____	_____	_____
11. Direct Costs	_____	_____	_____
12. Exploratory Well	_____	_____	_____
13. Farmout	_____	_____	_____
14. Horizon	_____	_____	_____
15. Independent Expert	_____	_____	_____
16. Landowner's Royalty Interest	_____	_____	_____
17. Non-Capital Expenditures	_____	_____	_____
18. Operating Costs	_____	_____	_____
19. Organizational & Offering Expenses	_____	_____	_____

<u>Guideline Section</u>	<u>Section Number Program Agreement</u>	<u>Page Number Prospectus</u>	<u>Endnote</u>
20. Overriding Royalty Interest			
21. Participant			
22. Person			
23. Production Purchase or Income Program			
24. Program			
25. Prospect			
26. Proved Reserves			
(a)(1) Proved Developed Producing Reserves			
(a)(2) Proved Developed Non-Producing Reserves			
(b) Proved Undeveloped Reserves			
27. Roll-Up			
28. Roll-Up Entity			
29. Sponsor			
30. Subordinate Interest			
31. Working Interest			
II. Requirements of Sponsor			
A. Experience			
B. Net Worth			
1. (a) Limited Partnership Offerings: 5% of offering not to exceed \$2 million			
(b) General Partnership Offerings-\$5 million.			
C. Financial Statements			
D. Additional Requirements for General Partnerships and Working Interests Program			
1. Participant Indemnification			
2. Insurance Coverage			
3. Terms of indemnification agreement & insurance coverage			
E. Tax Ruling or Opinion			

<u>Guideline Section</u>	<u>Section Number</u> <u>Program Agreement</u>	<u>Page Number</u> <u>Prospectus</u>	<u>Endnote</u>
F. Investment in Program	_____	_____	_____
G. Reports – Administrator	_____	_____	_____
H. Fiduciary Duty	_____	_____	_____
I. Liability & Indemnification	_____	_____	_____
1.(a) course of conduct in best interest of program	_____	_____	_____
(b) services for program	_____	_____	_____
(c) not negligence or misconduct	_____	_____	_____
(d) payments only from tangible net assets	_____	_____	_____
2. Securities Law Violations if:	_____	_____	_____
(a) successful adjudication;	_____	_____	_____
(b) dismissed with prejudice	_____	_____	_____
(c) court approved and court advised of SEC and state regulatory agencies	_____	_____	_____
3. Prohibited insurance	_____	_____	_____
4. Advance of program funds for legal expenses	_____	_____	_____
(a) Performance of duties or services	_____	_____	_____
(b) Legal action initiated by third party who is not a participant	_____	_____	_____
(c) Undertake to repay if not entitled to indemnification	_____	_____	_____
III. Selling of Units & Sales Materials			
A. Sales of Units	_____	_____	_____
B. Sales Material	_____	_____	_____

IV. Suitability of Participants

<u>Guideline Section</u>	<u>Section Number</u> <u>Program Agreement</u>	<u>Page Number</u> <u>Prospectus</u>	<u>Endnote</u>
B. Income & Net Worth Standards	_____	_____	_____
1. Income Programs	_____	_____	_____
2. Drilling Programs- Limited Liability	_____	_____	_____
3. Drilling Programs- Unlimited Liability	_____	_____	_____
C. Determination that Sale to Participant is Suitable & Appropriate	_____	_____	_____
D. Subscription Agreements	_____	_____	_____
E. Completion of Sale	_____	_____	_____
F. Minimum Investment	_____	_____	_____
V. Fees, Compensation & Expenses			
A. Organizational & Offering Expenses, and Management Fees	_____	_____	_____
B. Compensation			
1. Drilling Programs	_____	_____	_____
(a) Sponsor Payment of Capital Expenditures of 10% then 25% of program revenues. Additional 1% for each 1% additional capital expenditure not exceeding 50%	_____	_____	_____
(b) Facilities Downstream & Farmout Reduction	_____	_____	_____
(c) Sponsor Net Worth	_____	_____	_____
(d) Abandoned Well	_____	_____	_____
(e) Reasonableness	_____	_____	_____
2. Drilling Programs- Subordinate Interest of 25% of program distributions after investors receive capital contribution	_____	_____	_____
3. Drilling Programs (other alternatives)- 11% program revenues	_____	_____	_____

<u>Guideline Section</u>	<u>Section Number Program Agreement</u>	<u>Page Number Prospectus</u>	<u>Endnote</u>
if pays 1% of all program costs. Additional 1% for each 1% of costs paid up to 50% maximum			
4. Prospect Origination Services by Sponsor			
5. Income or Production Purchase Programs			
(a) With no technical staff, 3% carried interest until 100% return, then 5%			
(b) 10% carried interest if technical staff or 1% until 100% then 20% carried interest			
6. Operator Services			
7. Drilling Contractor Services			
8. Equipment Supplies & Services			
9. Written Contract			
C. Program Expenses			
1. Administrative Costs and Other Charges			
2. Directly Paid by Program			
3. Reimbursement for administrative costs			
4.-6. Tabular Form			

VI. Property Transactions with Affiliates & Other Restricted Activities

A. Sales & Purchases of Properties			
1. Drilling Programs			
2. Production Purchase or Income Programs			

<u>Guideline Section</u>	<u>Section Number</u> <u>Program Agreement</u>	<u>Page Number</u> <u>Prospectus</u>	<u>Endnote</u>
3. Purchases from All Programs			
4. Fair Market Value			
B. Custody of Program Funds & Property			
1. Commingling			
2. Advance Payments to Sponsor			
3. Property Acquisitions			
4. Investment in Securities			
5. Temporary Investments			
6. Offering Proceeds-Drilling Programs			
7. Offering Proceeds-Production Purchase Programs			
C. Other Restricted and Prohibited Activities			
1. Multi-Tier Arrangements			
2. Assets Benefit Program			
3. Marketing & Relationship Benefits Apportionment			
4. Disclosure of Agreements or Arrangements			
5. Drilling & Fiduciary Duty			
6. Loans to Sponsor/Affiliate			
7. Sponsor Loans to Programs			
8. Rebates/Give-ups			
VII. Farmouts			
A. Definition			
B. Disclosure of			

<u>Guideline Section</u>	<u>Section Number</u> <u>Program Agreement</u>	<u>Page Number</u> <u>Prospectus</u>	<u>Endnote</u>
Circumstances/ Limitations			
C. Conditions to Farmout			
1. Insufficient Funds/ Financing			
2. Downgraded Leases			
3. Excessive Concentration of Funds			
4. Best Interest of Program			
D. Conflicts Disclosure			
E. Acquisition not for Farmout			
F. Farmout Covering Sponsor Drilling Cost			
VIII. Rights & Obligations			
A. Meetings			
B. Annual & Periodic Reports			
C. Access to Program Records			
D. Admission of Participants			
E. Assessability & Defaults			
F. Voting Rights			
G. Removal or Withdrawal of Sponsor			
IX. Miscellaneous Provisions			
A. Minimum Program Capital			
B. Deferred Payments			
C. Cash Redemptions			
D. Appraisal & Compensation			
E. Reinvestment Plans			
F. Distribution of Revenues			
G. Distributions in Kind			
X. Prospectus Disclosure			
B. Offerings Not Registered with SEC			

Guideline Section

Section Number
Program Agreement

Page Number
Prospectus

Endnote

1. Thorough Topic Disclosures (a) - (o)			
2. Financial Statements			
C. Prior Performance			
D. Demonstration of Guideline Compliance			

Additional Supplemental Cross References:

Name: _____

Title: _____

Signature _____

Reasons to make these changes and conclusion.

The project group has noted some inconsistencies among the guidelines. Certain guidelines do not offer a sample cross reference sheet and others also fail to define the term or include a requirement that the cross reference sheet requires a filing. A first time applicant may be unaware of the need to prepare and file a cross reference sheet. This may delay an offering from an initial review. The proposals will define the term cross reference sheet, offer a sample cross reference sheet and require it to be filed upon the request of the Administrator and provide instructions. There are no new substantive changes to the Guidelines.

We encourage you to review the accompanying memorandum and submit your comments to the members of the project group.