



30 Cannon Street, London EC4M 6XH, United Kingdom
Tel: +44 (0)20 7246 6410 Fax: +44 (0)20 7246 6411
Email: iasb@iasb.org Website: www.iasb.org

**International
Accounting Standards
Board**

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These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.*

INFORMATION FOR OBSERVERS

Board Meeting: 13 March 2008, London

Project: Extractive Activities research project

Subject: Education session – update on recent developments in reserve and resource definitions (Agenda Paper 9)

Purpose

1. The purpose of this education session is to update the Board on developments that are occurring in the USA in relation to oil & gas reserve definitions and disclosure requirements. These developments relate to the USA's Securities and Exchange Commission (SEC) issuing, for public comment, *Concept Release on Possible Revisions to the Disclosure Requirements Relating to Oil and Gas Reserves* on 12 December 2007.
2. No decisions are expected for this session.

Session outline and objectives

3. This education session will be led by SEC staff. SEC staff have been invited to present this education session because of the close proximity (in terms of time and content) between the SEC Concept Release and the research project's consideration of minerals and oil & gas reserve and resource definitions. The comment period for the SEC Concept Release closed on 19 February 2008. Soon after, on Friday 14 March 2008,

the extractive activities session with the Board will be considering reserve and resource definition matters.

4. The objectives of this session are to inform the Board of the SEC's process to review its reserves reporting requirement for the oil & gas industry. [Remainder of paragraph omitted from Observer Note]
5. The SEC staff presentation will include a discussion of:
 - (a) the existing SEC / US GAAP oil & gas reserve reporting requirements; and
 - (b) the content of the SEC Concept Release.
6. [Paragraph omitted from Observer Note]

Background

7. The reporting requirements for oil & gas reserves in the USA are considered by some commentators to be a de facto global standard. The reasons for this may include:
 - (a) historical – a comprehensive regulatory framework requiring companies to report oil & gas reserve information has existed in the USA since 1978, which is well before other major jurisdictions developed their own requirements; and
 - (b) prevalence – many of the world's major publicly-owned oil & gas companies lodge their financial reports with the SEC either as domestic issuers or as foreign private issuers, and therefore the USA reporting requirements have become well known. Cambridge Energy Research Associates in its Special Report: *Modernising Oil and Gas Reserves Disclosures* of February 2006 noted that “The globalisation of the capital markets has brought non-US domiciled companies under the umbrella of SEC regulations. This trend has been matched in the globalisation of the strategies of US domiciled companies, reducing the US share of reserves subject to the [SEC] regulations (around which the 1978 System was designed) from more than 65 percent to only 17 percent of the total. This unanticipated shift has focused the industry away from US reserves and also turned the SEC into a de facto global regulator”.¹

¹ Cambridge Energy Research Associates, *Modernising Oil and Gas Reserves Disclosures*, page 1

8. The source of these reporting requirements is split between:
 - (a) SEC regulations – specifically Regulation S-X, Rule 4-10 *Financial accounting and reporting for oil and gas producing activities pursuant to the Federal Securities Laws and the Energy Policy and Conservation Act of 1975*, which defines proved oil & gas reserves, and Regulation S-K *Non Financial Disclosures* at Item 102 *Description of Property*, which requires the disclosure of proved reserves and prohibits companies from disclosing other categories of reserves; and
 - (b) US GAAP – predominantly FAS 69 *Disclosures about Oil and Gas Producing Activities*, which requires the disclosure of, among other things, proved reserve volumes and a standardised measure of oil & gas proved reserves (which is a measurement based on Reserve Recognition Accounting that was previously considered by the SEC).

SEC Concept Release

9. The SEC Concept Release seeks public comment on the whether the SEC’s oil & gas definition and disclosure requirements should be revised and, if so, what types of revisions should be contemplated. The SEC notes “The extent and pace of changes in the oil and gas industry, and public concern that our oil and gas reserves disclosure requirements are not fully aligned with current industry practice, have led us to reconsider those requirements”.²
10. A copy of Concept Release is provided at agenda paper 9A.
11. [Paragraph omitted from Observer Note]
12. [Paragraph omitted from Observer Note]
13. As at 27 February 2008, 79 responses to the SEC Concept Release were posted onto the SEC’s website. Of the respondents, 12 are represented on the research project’s Advisory Panel – these are BHP Billiton, BP, EnCana, Eni, Exxon Mobil, Shell, Total, the CFA Institute, Deloitte, Ernst & Young, KPMG, and PricewaterhouseCoopers. In addition, the Society of Petroleum Engineers (SPE) and Committee for Mineral

² SEC Concept Release, page 3

Reserves International Reporting Standards (CRIRSCO) also responded to the Concept Release.

14. [The remainder of the agenda paper is omitted from the Observer Notes]