

SEC Revises Reserves Rules on the Basis of SPE System

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The US Securities and Exchange Commission (SEC) late last year unanimously adopted revisions to its rules governing oil and natural gas reserves reporting, with those revisions aligned with and incorporating many of the definitions in the Society of Petroleum Engineers (SPE) Petroleum Resources Management System (PRMS). The revised rules will go into effect on January 1, 2010.

The SEC oversees US securities exchanges, securities brokers and dealers, investment advisers, and mutual funds. Companies publicly offering securities on US exchanges are required to file regular disclosures to the SEC, concerning their securities and the scope, practices, condition, and risks of their businesses with respect to investors.

The changes just adopted by the SEC, announced December 29, 2008, marked the first major revision of the commission's reserves-reporting rules since 1983.

"In the more than a quarter century since the SEC last reviewed its rules in this area, there have been significant changes in technology that have increasingly limited the usefulness of current disclosures to the market and investors," said Christopher Cox, then-Chairman of the SEC. "These updates to the SEC rules will help ensure more meaningful and comprehensive disclosure of information that, even though it does not appear on a company's balance sheet, is of significance to investors in making informed investment decisions."

Leo Roodhart, 2009 SPE President, praised the commission for modernizing the reporting rules. "The SEC is to be commended for updating the rules on oil and natural gas reserves reporting to reflect changes in technology, and for using the PRMS primarily as the basis for the technical changes," he said. "The updated rules recognize the importance of new technologies in making accurate and reliable estimates of oil and natural gas reserves as the industry develops resources in harsher environments, including ultradeepwater and the Arctic, as well as more unconventional resources."

The PRMS was developed by SPE in collaboration with the World Petroleum Council, the American Association of Petroleum Geologists, and the Society of Petroleum Evaluation Engineers (SPEE).

"SPE's Oil and Gas Reserves Committee is gratified that our work has served as a foundation for improving the information provided to investors and the public about the reserves controlled by public companies," said Delores Hinkle, SPE Oil and Gas Reserves Committee Chairperson.

"The updated rules allow companies the flexibility to provide additional reserve information to the investing public and should result in better reserve estimates, due to the inclusion of the advanced technologies and evaluation practices now in use around the world."

For the benefit of the oil and gas industry, and regulatory and reporting bodies, SPE maintains globally accepted definitions for reserves and resources and provides an associated set of estimating guidelines, which are being maintained evergreen as current best practices. Issued in 2007, the PRMS updated and combined SPE's previous reserves and resources definitions and the associated glossary into a single document, designed to support a wide group of stakeholders. More information about the PRMS is available at www.spe.org/reserves.

Public comment on the revised rules was solicited, received, and reviewed by the SEC before the revisions were adopted. However, a final comment period remained open until mid-February, to receive comments pertaining exclusively to the potential compliance burdens of the updated rules in light of the Paperwork Reduction Act.

Comments received during this final period have focused on areas such as the time and expense of additional disclosure requirements under the revised rules and the disparity created by adopting a new reserves-pricing method that differs from that used in financial reporting.

The 2010 effective date for the revised rules means that companies with SEC reporting responsibilities will need to implement those rules in their 2009 recordkeeping. Some larger oil and gas companies have argued that the new rules may require up to 20,000 hours of additional preparation time to complete 2009 year-end filings.

A new rule requiring reserves to be booked by taking an average of first-day-of-the-month prices over a whole year, instead of the previous method of taking only the December 31 price, is generally regarded as an improvement. However, it would double the required recordkeeping, the American Petroleum Institute and SPEE have argued, unless financial accounting rules—which now use the December 31 method—are changed to incorporate the 12-month price averaging measure in the new SEC rules.

The SEC may issue rule modifications or clarifications addressing the comments received. Any change in financial accounting rules would require a decision of the Financial Accounting Standards Board, a separate organization from the SEC.

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