

WASHINGTONwatch

Reserves Disclosure Rules Revised

By DAVID CURTISS
GEO-DC Director

On Dec. 29, 2008, the U.S. Securities and Exchange Commission (SEC) announced that it was revising and updating its disclosure rules for oil and natural gas reserves.

Oil and natural gas professionals have been urging the SEC to modernize its disclosure rules for oil and natural gas reserves for many years. The principal criticism of the original rules is that they were introduced more than a quarter century ago, and were not updated regularly to remain current with industry practice and technological advancements.

The result was an increasing divergence between the information investors and the market wanted and what companies could disclose in their official SEC reports.

The vote by the bipartisan commission to adopt the amendments to the disclosure rules was unanimous, and completes a process that has taken more than a year.

It began after AAPG and the Society of Petroleum Engineers held the Interdisciplinary Reserves Conference in Washington, D.C., in June 2007 (August 2007 EXPLORER) with a Concept Release issued the following December, in which the SEC solicited feedback on a host of specific questions relating to reserves disclosure.

Based on this feedback, the SEC developed a proposed rule (actually a series of amendments to the current rule) that it offered for public comment in June

In order to prepare AAPG members for changes to disclosure rules for oil and natural gas reserves, a Geoscience Technology Workshop will be held jointly with the Petroleum Technology Transfer Council at the 2009 AAPG Annual Convention and Exhibition in Denver, titled "SEC Reserves Reporting Rule Change in 2010: Find Out How They Apply to You." Watch for details in the upcoming convention announcement, or e-mail educate@aapg.org for more information. □



Curtiss

2008. The SEC then used this additional feedback to develop the final amendments that the commission adopted in December 2008.

In announcing the changes to the disclosure requirements, SEC Chairman Christopher

Cox said, "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."

* * *

AAPG provided comments and feedback throughout the process, as did many of our sister societies.

In our comments, AAPG urged the SEC to adopt the principles set out in the Petroleum Resources Management System - a set of guidelines and definitions for managing petroleum resources, prepared by the Society of

volumes and enables the booking of reserves outside traditional spacing areas, which is particularly important for resource plays.

✓ The concept of "reasonable certainty" is central to the revised definition of proved reserves, and follows the PRMS. It permits the use of deterministic and probabilistic methods in meeting the standard.

✓ Uses a principles-based definition of "reliable technology" that permits a broader portfolio of technologies to estimate and categorize proved reserves. Enabling the use of new technologies, once they are established as reliable, is a significant step to ensuring that these new disclosure rules will remain current.

✓ The SEC will now permit (but not require) disclosure of probable and possible reserves.

"It is gratifying to see the SEC make these changes to its disclosure requirements, and I congratulate and thank the many AAPG members and members of other professional associations who helped develop and communicate the PRMS principles," said Peter R. Rose, a former AAPG president, co-chair of the reserves conference and chair of the AAPG ad hoc committee on SEC response.

"The new disclosure rules demonstrate how scientific excellence and professional, ethical conduct in a regulatory context directly benefit society," Rose continued. "Our challenge now, as a scientific and professional association, is

continued on next page

continued from previous page

to ensure that our members who are engaged in preparing and complying with these new rules can do so properly and effectively.”

The SEC has set an effective date for the new rules of Jan. 1, 2010, and

companies may not adopt the new disclosure requirements any sooner. □

(Editor's note: David Curtiss, head of AAPG's Geoscience and Energy Office in Washington, D.C., can be contacted at dcurtiss@aapg.org; or by telephone at 1-202-684-8225.)