

Comment

by

**Bureau of the UNECE Ad Hoc Group of Experts on the Harmonization of
Fossil Energy and Mineral Resources Terminology (AHGE)**

1 February 2008

on

Mapping of Petroleum and Minerals Reserves and Resources Classification Systems

A Joint Report submitted by:

**Committee for Mineral Reserves
International Reporting Standards (CRIRSCO)**

and

**Society of Petroleum Engineers (SPE)
– Oil & Gas Reserves Committee**

to the:

**International Accounting Standards Board
Extractive Activities Working Group**

September 2007

Introduction

The IASB Extractive Activities Project team requested the Bureau of the AHGE to submit any comments it may wish to make to the captioned mapping study on 9 December 2007.

The Bureau would like to express its appreciation for the efforts undertaken by SPE and CRIRSCO in producing this excellent report. It brings a clearer understanding of the two classifications, and represents a significant document in the current process of developing a classification, not only of fossil energy and mineral resource quantities, but also of the extractive activities that are of direct relevance to the four principal needs that the AHGE is aiming to serve, namely:

1. Long sighted energy policies
2. Government resources management
3. Corporate business process management and
4. Financial reporting.

It is seen to be important that requirements in any of these areas do not prevent the generation and communication of information to address the other needs. In particular, it is important that requirements for financial reporting do not preclude the reporter to communicate information on the full resource base as required to meet needs 1, 2 and 3 above. For these latter purposes, it is necessary to include everything from the resources to be produced through developed projects that are on production through to those that will be produced from as yet undiscovered resources.

Historical background

Classifications were initially introduced in response to needs arising from industrial efforts to exploit fossil energy and mineral resources commercially on a large scale. It started early in the 1900s and continued through much of the century as a classification of quantities in place in the subsoil, and the theoretical recovery therefrom, both in the centrally planned economies and in the market economies.

A significant change took place early in the 1990s when recoverable quantities began to be related more directly to the actual or planned recovery efforts. This developed internally in industry in response to the use of value chains as a management tool and in some Governments particularly concerned with resources management. It broke through in international classifications such as the UNFC in 1997 and the recommendations to the SPE/WPC/AAPG resource classification in 2000. By 2004 it was firmly established in the UNFC, based on the efforts of the SPE Oil and Gas Reserves Committee, and it was confirmed in the March 2007 Petroleum Resources Management System of SPE, WPC, AAPG and SPEE.

Introduction of the Balanced Scorecard and its key performance indicators in the 1990s provided further impetus to the requirement that cost information be

more closely related to the information on the recoverable quantities that were a consequence of those costs. This marked a change in the information that analysts required, but not in the reporting rules. Up to then, booking of reserves was not explicitly linked to the extractive activities being undertaken or the costs and revenues associated with those activities. Reserves would typically be booked in periods prior to those where the costs were incurred. It is significant but also quite natural and uncontroversial that the mapping report confirms the usefulness of classifying extractive activities in accordance with the commonly used decision gates.

We are still in a period of change where the previous classifications form just one part of the input required to classify extractive activities for the four purposes mentioned above.

Ongoing work

The AHGE, comprising SPE, CRIRSCO and other stakeholders, decided to continue the work of SPE and CRIRSCO by reviewing the UNFC in the context of the mapping with, and between, the SPE and CRIRSCO systems. A task force produced an [interim report](#) on 2 October 2007 that was considered at the [4th Session of the Group](#) held 17-19 October 2007 in Geneva. The report was considered favorably:

“The meeting recommended finalizing the mapping exercise by 29 February 2008 by seeking comment from the Ad Hoc Group of Experts on the Task Force Report by 30 January 2008. In addition, the meeting encouraged volunteers for additional mapping opportunities, especially with national systems recognizing that additional adjustments may be necessary. It was recognized that the three dimensional presentation of the UNFC is challenging to communicate and that a two dimensional classification, developed through the mapping exercise may be advisable. This would still use the categories of the UNFC to define the classes. In such a scheme, the UNFC will remain as a strong classification in the background, from which other classifications and their inventories may be generated. However, care should be taken in proposing any modifications to the UNFC, and modification to the UNFC text should wait until the impact of such changes on existing classification systems is clear.”

The interim and final reports will de facto constitute the detailed comments of the AHGE to the excellent mapping report and provide valuable input to the IASB Extractive Activities Project

Closing remarks

The mapping report establishes alignment at a “high level” between the 2007 SPE and the 2006 CRIRSCO classifications. Most significantly, there seems to be better alignment in the way extractive activities are classified than there is between the resource classifications. This stems, in our opinion, from the measures taken in the development of PRMS to move from simply a

classification of the geological endowment to a system that is based primarily on project status, i.e. a classification of extractive activities. This approach encompasses the geological endowment and clarifies explicitly the estimated recoverable portions by linking them directly to industrial and financial resources, as well as value, through the defined projects. The AHGE sees this as a fundamental requirement of any system that is intended to serve the four needs mentioned in the introduction.