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## Economic Commission for Europe

### Committee on Sustainable Energy

#### Expert Group on Resource Classification

##### Third session

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Item 14 of the provisional agenda

##### Update on financial reporting

## Update on financial reporting

### Note by the secretariat

1. The minerals and oil and gas industries are an important part of the international capital markets.
2. This update provides a high-level overview of the status of recent key financial reporting initiatives impacting these industries.

## I. International financial reporting standards

3. Divergence exists in the accounting for minerals and oil and gas extractive activities in a number of areas, including: (a) the extent to which the costs of finding, acquiring and developing minerals and oil and gas reserves and resources should be capitalized; (b) the methods of depreciating or amortizing capitalized costs; (c) the degree to which quantities and values of minerals and oil and gas reserves and resources, rather than costs, should affect recognition, measurement and disclosure; and (d) the definition and measurement of minerals and oil and gas reserves and resources.

4. In 2004, the International Accounting Standards Board (IASB) established an international project team in order to identify a possible approach for a future International Financial Reporting Standard (IFRS) on the accounting for extractive industries, with the project team comprising staff from the national standard-setters in Australia, Canada, Norway and South Africa. The objective of this project is to analyse the unique financial reporting issues applicable to extractive activities and to identify a basis on which a financial reporting model might be developed to address these issues.

5. The project team's findings and recommendations were presented in the staff Discussion Paper - *Extractive Activities*, which was published in April 2010 for public comment prior to the IASB deciding whether to add this project to its active agenda. Additional details on the findings and recommendations included in the Discussion Paper are available on the IASB website, under IASB projects.<sup>1</sup>

6. The Discussion Paper considered a number of areas relating to the reporting of extractive activities, including:

- (a) The potential scope of a future standard;
- (b) The definition of reserves and resources;
- (c) The basis of asset recognition;
- (d) The approach to determining the unit of account;
- (e) The approach to asset measurement; and,
- (f) Proposed scope of disclosures.

7. The research team received over 140 responses to the Discussion Paper, which can be viewed on the IASB's website.<sup>2</sup> The respondents were predominately from the minerals and oil and gas majors, accountancy bodies, regulators and accountancy firms, as well as a number of other bodies interested in one or more of the specific provisions. There was however more limited response from small- and medium-sized extractive industry companies.

8. In October 2010, the findings from the public responses to the Discussion Paper were presented to the IASB.

9. This project has subsequently been paused by the IASB until the board concludes its ongoing deliberations about its future work plan and whether this project will be added to its active agenda. It is expected that the agenda consultation process will be discussed further at the Board's May 2012 meeting.

## **II. United States Securities and Exchange Commission oil and gas reporting**

10. The revised United States Securities and Exchange Commission (SEC) rules for reporting oil and gas reserves became effective for the year ended 31 December 2009, with the SEC also issuing Compliance and Disclosure Interpretations ("C&DIs") of the Oil and Gas Rules in Regulation S-X and Regulation S-K in late 2009.

11. In addition, the United States Financial Accounting Standards were updated in 2009 to be consistent with the revised oil and gas rules with respect to reporting relating to oil and gas activities.

12. There have been no substantive updates to these rules since their issuance.

13. The SEC continues to issue comment letters, which include comment on the reporting of oil and gas activities.

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<sup>1</sup> <http://www.iasb.org/current+projects/IASB+projects/extractive+activities/summary.htm>

<sup>2</sup> [www.iasb.org](http://www.iasb.org)

### III. European Securities and Markets Authority

14. The European Securities and Markets Authority (ESMA) replaced the Committee of European Securities Regulators (CESR) on 1 January 2011. ESMA is an independent European Union Authority that seeks to safeguard the stability of the European Union's financial system by ensuring the integrity, transparency, efficiency and orderly functioning of securities markets, as well as enhancing investor protection.

15. In March 2011, ESMA published the *ESMA update of the CESR recommendations* (the update) which reissues CESR's recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses (number 809/2004 as published in 2005).

16. This updates guidance for companies issuing prospectuses for the issuance of shares, debt securities, depository receipts and derivative securities with material interests in mineral projects including exploration, development, planning or production activities (including royalty interests) in respect of minerals including metallic ore, industrial minerals and hydrocarbons.

17. Prospectuses within the scope of this update should include:

(a) Details of mineral resources, and where applicable reserves (presented separately) and exploration results/prospects in accordance with one of the reporting standards that is acceptable under the codes and/or organisations set out in the update;

(b) Anticipated mine life and exploration potential or similar duration of commercial activity in extracting reserves;

(c) An indication of duration and main terms of any licenses or concessions and legal, economic and environmental conditions for exploring and developing those licenses or concessions;

(d) Indications of the current and anticipated progress of mineral exploration and/or extraction and processing including a discussion of the accessibility of the deposit; and

(e) An explanation of any exceptional factors that have influenced (a) to (d) above.

18. In addition, all prospectuses by mineral companies within the scope of this update should contain a competent persons report unless:

(a) It has published a suitable competent persons report meeting the requirements of the update;

(b) It is already admitted to trading on either a regulated market, an equivalent overseas market, or an appropriate multi-lateral trading facility; and

(c) It has continued to report and publish annually details of its mineral resources and where applicable reserves and exploration results/prospects in accordance with one of the reporting standards set out in the update.

19. Appendix I to the update provides new guidance around Acceptable Internationally Recognised Mineral Standards to be applied in complying with the update.

20. For minerals these are:

(a) The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code) published by the Australasian Joint Ore

Reserves Committee (JORC) of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and the Minerals Council of Australia, as amended;

(b) The South African Code for the Reporting of Exploration Results, Mineral Resources and Mineral Reserves (the SAMREC Code) drawn up by the Working Group of the SAMREC (South African Mineral Resource Committee)/SAMVAL (South African Mineral Asset Valuation Committee) Committee under the joint auspices of the Southern African Institute of Mining and Metallurgy and the Geological Society of South Africa, as amended;

(c) The various standards and guidelines published and maintained by the Canadian Institute of Mining, Metallurgy and Petroleum (CIM Guidelines), as amended;

(d) A Guide for Reporting Mineral Exploration Information, Mineral Resources and Mineral Reserves (SME Reporting Guide) prepared by the United States Society for Mining, Metallurgy and Exploration, as amended;

(e) The Pan-European Reserves and Resources Reporting Committee (PERC) Reporting Code jointly published by the United Kingdom Institute of Materials, Minerals, and Mining (IOM3), the International Mining & Minerals Association within IOM3, the European Federation of Geologists, the Geological Society of London, and the Institute of Geologists of Ireland, as amended; or

(f) Certification Code for Exploration Prospects, Mineral Resources and Ore Reserves as published by the Instituto de Ingenieros de Minas de Chile, as amended.

21. For oil and gas these are:

(a) The Petroleum Resources Management System (PRMS) jointly published by the Society of Petroleum Engineers, the World Petroleum Council, the American Association of Petroleum Geologists and the Society of Petroleum Evaluation Engineers, as amended;

(b) Canadian Oil and Gas Evaluation Handbook (COGEH) prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Petroleum Society of the Canadian Institute of Mining, Metallurgy and Petroleum, Calgary Chapter (on 7 August 2009, the Petroleum Society of Canada merged with the Society of Petroleum Engineers), and the resources and reserves definitions contained in National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities; or

(c) Norwegian Petroleum Directorate classification system for resources and reserves.

22. Appendices II and III provide guidance as to the content of the Competent Persons Report.

#### **IV. Alberta Securities Commission**

23. In December 2011, the Canadian Securities Administrators (CSA) published an update to *CSA Staff Notice 51-327 Guidance on Oil and Gas Disclosure* to provide additional guidance to reporting issuers directly or indirectly engaged in oil and gas activities when preparing their disclosure.

24. The Notice provides additional guidance related to compliance with disclosure requirements, as well as expanded guidance that includes:

(a) New guidance on the general responsibilities of oil and gas issuers and the experts on whom they rely in formulating disclosure of oil and gas information;

- (b) New guidance on the disclosure of after-tax net present value of future net revenue, use of barrels of oil equivalent (BOEs) and disclosure of well-flow test results; and
  - (c) Expanded guidance on the following disclosure topics:
    - (i) Evaluation, classification and disclosure of unconventional hydrocarbons, including revised guidance on disclosure of contingent resources; and
    - (ii) Classification to the most specific class and category of resource.
25. *CSA Staff Notice 51–327 Guidance on Oil and Gas Disclosure* and related rule materials are available on the websites of CSA members.

## V. Acknowledgement

26. The secretariat would like to thank Ernst & Young LLP for the assistance provided in the preparation of this briefing note.
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