

New SEC Oil and Gas Rules: First Year of Compliance

Roger Schwall
Assistant Director, Office of Natural Resources
Division of Corporation Finance
United States Securities and Exchange Commission (SEC)

UNECE Expert Group on Resource Classification
Geneva
7 April 2011

Disclaimer

- The Securities and Exchange Commission disclaims responsibility for any private publication or statement of any SEC employee or Commissioner.
- This presentation expresses the author's views and does not necessarily reflect those of the Commission or other members of the staff.

Modernization of Oil and Gas Reporting

- Adopted December 2008
- Effective for audited periods beginning December 31, 2009
- First disclosures began in March 2010

Goals/Principles

- Investor Protection
- Comparability
- Transparency
- Long-term applicability (principles-based)

Changes

- Revisions to Rule 4-10 of Regulation S-X
 - Definitions
- Revision to Item 102 of Regulation S-X
 - Description of properties and reserves
- Industry Guide 2 moves to Subpart 1200 of Regulation S-K
 - Disclosure of operations

Revisions to Rule 4-10(a)

- Year-end price replaced with average price. Most issuers get it.

Revisions to Rule 4-10(a)

- PUDs
 - Relaxation of one offset requirement
 - Five year standard

Summary of oil and reserves at year-end [Item 1202(a)(1)]

- Tabular presentation:
 - Product type (oil, natural gas, synthetic oil, synthetic gas, and other products)
 - Reserves category (Proved developed and undeveloped)
 - Geographic area

Summary of oil and reserves at year-end Observations

- Combining tables -> Does it add clarity
- NGLs -> Product type
- Geographic area
- BOE Equivalence

Probable and Possible Reserves

[Item 1202(a)(1)(iv-vii)]

- Optional
- Explain uncertainty

Reliable Technologies

[Item 1202(a)(6)]

- Reliable Technologies
- When?
 - First time disclosing reserves
 - Disclosing material additions

Reliable Technologies Observations

- Material additions
 - New discoveries and extensions
 - Replacement
- Too much or too little

Other Pricing Scenarios

[Item 1202(b)]

- Sensitivity analysis (Optional)
 - Show effect of different price case on different categories and products
- Issues: clearly describe what it is and is not

Internal Controls of Estimation Process [Item 1202(a)(7)]

- Disclose internal controls used in reserves estimation effort
- Observation -> should be clear

Internal Controls of Estimation Process

[Item 1202(a)(7)]

- Technical qualifications of primary person
- Observation -> be clear
- If third party prepares or audits estimate
- Observation -> who receives report

Third Party Reports

[Item 1202(a)(8)]

- List of 10 Items
- Observation -> include the following:
 - Percentage of proved reserves
 - Percentage of proved undeveloped
 - How properties were selected

Third Party Reports

[Item 1202(a)(8)]

- Prices:
 - Benchmark
 - Differentials
- Generally accepted engineering principles
- Assumptions

PUDs

[Item 1203(a)-(c)]

- Total PUDs at year end
- Material changes – not just conversion
- Investments and progress in converting PUDs to proved
- PUDs beyond 5 years

PUDs

Observations

- Material changes:
 - Quantify them
 - Explain them. Consider
 - Drilling activity
 - Improved recovery
 - Acquisitions
 - Extensions and discoveries
 - And don't forget **Replacement!**

PUDS over 5 years old [Item1203(d)]

- If there are any PUDs over 5 years old -> Why?
- Observation on Restarts

PUDs – 5 Year Horizon

[Rule 4-10(a)(31)]

- Unless “specific circumstances” apply
- What are “specific circumstances?”
- What is a project?

Delivery commitments

[Item 1207]

- Sources to meet those commitments
- Quantities subject
- Steps to ensure availability
- In a form understandable to investors

Delivery commitments

Observations

- Should be clear from disclosure if there are any such commitments
- Not always clear

Properties and Leases

[Item 1208(b)]

- Minimum remaining terms of leases and concessions, if material
- Observation -> not always clear

MD&A

- Item requirements are connected to each other:
 - Changes in reserves
 - Development plans
 - Funding requirements
- See Section V of 33-8995

We get questions

- October 26, 2009: staff posted guidance on SEC website at
 - <http://www.sec.gov/divisions/corpfin/guidance/oilandgas-interp.htm>
- If you have questions:
https://tts.sec.gov/cgi-bin/corp_fin_interpretive
Check the box for Office of Chief Counsel