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United Kingdom

Deloitte calls on regulators to update rules for oil & gas reserves reporting

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Deloitte is urging regulators around the world to update reporting requirements for oil and gas reserves to expand the scope of mandatory disclosures in annual reports and financial statements. The recommendations published today in a report by Deloitte's global oil & gas group seek to work with the industry to improve information available to markets and restore investor confidence in reserves reporting.

Current reserve disclosures and definitions are commonly based on US Securities and Exchange Commission (SEC) rules introduced in 1978 focusing on 'proved' reserves. Petroleum engineers globally have since significantly updated the structure and definitions for categorising reserves. The information widely used by the industry for making investment, planning and portfolio decisions includes 'probable', as well as 'proved', reserves and is estimated using sophisticated data capture and analysis techniques developed over the last 25 years.

Peter Newman, managing partner of Deloitte's global oil & gas group said:

"Regulators should work together globally and adopt the definitions and categorisation structures already endorsed by the petroleum experts and widely used within the industry today. Confidence has waned in this area following the restatements over the last year of reserves previously reported and focusing only on 'proved' reserves information is limiting and prone to misinterpretation. "

The following recommendations are identified in the report:

- Mandatory disclosures should be expanded by market regulators and accounting standard setters to include reporting on probable as well as proved reserves. Information on expected timing of production from both categories should be provided.
- Reserves information is essentially 'forward-looking' and as such should be presented within the Operating and Financial Review (OFR), or in the US, the Management Discussion & Analysis (MD&A), in both narrative and quantitative form, rather than as unaudited notes to the accounts.
- A requirement that reserves estimates disclosed in annual reports and accounts are to be prepared only by suitably 'certified' engineers, whether they are internal employees or external consultants, in accordance with standards and guidelines being finalised currently by the petroleum engineering profession.
- Corporate governance regulations on internal financial control processes, such as Turnbull in the UK and Sarbanes-Oxley 404 in the US, should apply to the compilation and reporting of reserves.
- In estimating reserves, managements should be permitted to interpret the 'current economic conditions' so as to apply reasonable price and cost assumptions consistent with their overall plans and budgets.
- Although independent audit of oil and gas reserves should remain optional, a framework of standards and guidelines governing independence, competence, audit procedures and prescribed forms of reporting needs to be further developed.

Peter Newman added: "Reserves are fundamental to the accounts of upstream companies and the

current disclosure requirements do not adequately reflect this. Significant improvements are needed to the reserve disclosures available to markets as this information is so vital to users in assessing business performance and calculating reported income. Our suggestions are designed to promote disclosure of a fuller and more meaningful picture of oil & gas reserves information."

The report co-authored by managing partner Peter Newman (London, UK) and chairman Victor Burk (Houston, US) of Deloitte's Global Oil and Gas Group, is available at www.deloitte.co.uk

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