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Comments on SEC File No. S7-29-07 “Concept Release on Possible Revisions to the Disclosure Requirements Relating to Oil and Gas Reserves”

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Submitted to: Securities and Exchange Commission
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Background

The Committee for Mineral Reserves International Reporting Standards (CRIRSCO) is pleased to respond to the SEC’s request for comments submitted in “Concept Release on Possible Revisions to the Disclosure Requirements Relating to Oil and Gas Reserves”, File No. S7-29-07.

CRIRSCO currently represents National Reporting Organisations (NROs) in Australia, Canada, Chile, South Africa, UK & Western Europe and USA engaged in the promotion of best practice public reporting of Exploration Results, Mineral Resources and Mineral Reserves. The similarities between the oil and gas and minerals industries have been recognised by various international organisations including the United Nations Economic Commission for Europe (UNECE) and the International Accounting Standards Board (IASB).

As a result of representations by these bodies, CRIRSCO has worked closely since 2006 with the Society of Petroleum Engineers (SPE) to align reporting guidelines between the two industries. While differences between minerals and oil and gas are evident, not least arising from the different regulations that apply to them, the current work has demonstrated overwhelming similarities that will hopefully lead to continued and increased cooperation in future.

It is clear from an initial reading of the Concept release that many of the issues that the SEC wishes to address apply equally to the minerals industry, and CRIRSCO urges the SEC to consider concurrent revisions to disclosure requirements relating to minerals exploration and mining as well as oil and gas.

Current situation

In all of the countries and areas represented by CRIRSCO, national standards for the public reporting of Exploration Results, Mineral Resources and Mineral Reserves have been developed or updated in the last eight years. In many countries (for example Australia, South Africa, Chile and Canada) these standards are incorporated in stock exchange listing rules or otherwise linked to securities regulators or governments such that they form the official minerals reporting standards of the countries concerned. Other countries are in the process of adopting new or updated reporting standards with similar regulatory links, and CRIRSCO encourages these developments through the production of the [CRIRSCO International Reporting Template](#); a document that synthesises international reporting best practice and

which can be used as a model by countries without reporting standards or that wish to update existing standards.

All of the CRIRSCO family of reporting standards are principles based. All rely on the founding principles of transparency, materiality and competence when providing stakeholders, including investors, with information on the most significant assets of mining companies. All estimates of Mineral Resources and Mineral Reserves, and public statements of these and Exploration results, must be made by Competent Persons, defined on the basis of professional affiliation (including adherence to professional codes of ethics and disciplinary rules) and relevant experience.

SEC Industry Guide 7, which specifies reporting requirements for issuers engaged in or to be engaged in significant mining operations, provides significantly less guidance than generally accepted international standards, and the minerals industry investors would benefit greatly from a revision to SEC regulations that remedied the current situation.

Responses to General Requests for Comment

The following notes reflect CRIRSCO's views on the specific issues identified for comment by the SEC in its Concept Release.

- 1 The regulations pertaining to oil and gas (and minerals) disclosures in the USA are unusual in being mainly rules based. Other than in centrally controlled governmental regimes, most reporting standards are now principles based, as are those of the CRIRSCO family. The result of adopting principles based reporting has been to greatly expand the amount of information provided to investors. For example current oil and gas reporting regulations in the USA constrain issuers to disclosing proved reserves only, while minerals companies are restricted to reporting proved and probable reserves, in itself a regulatory anomaly between the two industries. Elsewhere, minerals companies may report exploration results and mineral resources (precursors to reserves) in addition to mineral reserves, and the international investment community has become accustomed to and indeed expects mining companies to disclose such information along with statements of reserves.

While acknowledging possible concerns for quality, consistency and comparability, CRIRSCO has found that placing the onus on issuers to provide more and better information (transparency and materiality) and having reports certified by appropriately qualified professionals (competence) has been beneficial in raising awareness amongst investors.

- 2 Restricting oil and gas issuers to reporting only proved reserves significantly disadvantages investors who wish to know not only what the issuer has 'in the bank' in terms of reserve assets, but where future reserves may come from. The concept of estimating probable reserves as a less certain addition to proved reserves is longstanding in the oil and gas and minerals industries and as noted above these can already be reported under current SEC minerals reporting regulations.

CRIRSCO is further of the opinion that mineral resources (marginal contingent resources in the oil and gas industry) should be publicly reportable under carefully defined conditions. The SEC does not currently officially recognise the term, although it informally allows disclosure in terms of 'other mineralisation' or 'mineralised material' which meets geological requirements for Measured and Indicated Resources, but is not covered by a feasibility study.

- 3 CRIRSCO has worked closely with the SPE during the development of the 2007 Petroleum Resources Management System (PRMS), and there is a close alignment between the two systems. The PRMS is not primarily targeted at public reporting of oil and gas reserves, but the principles it incorporates lend themselves to this purpose.
- 4 No comment at this time.

- 5 Reserve estimation can be a particularly complex task and the results are always subject to uncertainty to a greater or lesser degree. For this reason practitioners in the minerals industry are always advised to use the term estimation rather than calculation. While many tests are normally applied to assess the validity of data used in mineral resource and mineral reserve estimates, these are not normally defined in reporting codes and disclosure regulations. Given the wide range of mineral commodities, it is sensible to take this route, although the publication of 'best practice guidance' can often be helpful.
- 6 No comment at this time
- 7 No comment at this time
- 8 No comment at this time
- 9 No comment at this time
- 10 A fundamental principle of minerals reporting codes is that the prices used in mineral resource and mineral reserve estimation are management's best estimates looking forward. This most closely reflects the way minerals (and oil and gas) companies manage their business and make investment decisions.

Fixed or spot prices are generally very poor representations of long run prices which are typically volatile in both industries. Forward looking price estimates should generally reflect smoothed long term trends based in part on historic price movements but also on assessments of future supply and demand. In CRIRSCO's view some consistency and comparability among companies is lost by allowing such price estimates but the alternative; that of price setting by regulation using short time-frames compared to the expected lives of mining operations, is considerably more misleading to investors.

- 11 Refer to response to question 13 below.
- 12 No comment at this time
- 13 The issue of unconventional hydrocarbons such as tar sands is one where there is considerable overlap between the minerals and oil and gas industries. Given the significance of unconventional sources to the current and future oil and gas industry, CRIRSCO believes that it is imperative that some form of disclosure is made available to issuers in this sector of the industry. Moreover, the overlap with minerals suggests that there is a further need to align SEC minerals and oil and gas reporting regulations to ensure a consistent approach. The form of the product or the degree of downstream processing is in CRIRSCO's view something that can be handled through appropriate disclosure of information in the same way that mineral products can be described as 'as mined' or 'as sold'.
- 14 No comment at this time
15. In CRIRSCO's view, adoption of the Competent Person principle by the SEC, in conjunction with internal governance systems such as Sarbanes-Oxley compliance, audit committees etc, would in most cases provide investors with the reassurance they need on the quality of the resource and reserve figures being presented. However, there are a number of cases, for example in smaller companies without the internal resources to carry out evaluation work, or in larger companies that wish to improve their internal practices or make significant investment decisions, where independent evaluations can be very useful. In the minerals industry, and particularly amongst the larger

companies, such independent evaluations are routinely carried out; however this is done on a voluntary basis where there is greatest benefit to the company (and by extrapolation to its investors).

CRIRSCO would also point out that finding independent third parties in either industry with the skills and capacity to do all the required evaluation work would be a daunting task, and in many cases third parties would struggle to match the knowledge of the resources and reserves available in house.

In conclusion, CRIRSCO strongly supports this SEC initiative to address the generally perceived failings in the current oil and gas reporting regulations and re-iterates its view that the regulatory issues in the oil and gas and minerals industries are so similar that the minerals industry regulations should also be updated as a matter of priority.

CRIRSCO, in association with its constituents¹, remains willing to engage with and assist the SEC in this process.

Yours sincerely



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Committee for Mineral Reserves International Reporting Standards

¹ CRIRSCO acknowledges the submission made to the SEC by the Society for Mining, Metallurgy and Exploration Inc. (SME). The SME is a long-standing member of CRIRSCO and while endorsing the views expressed in its submission, CRIRSCO would like to note that the two submissions are made independently.