

Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

2017 - 2018

Division/Agency: Australian Securities and Investment Commission

Question No: 117

Topic: Transparent reporting of oil and gas reserves

Reference: Written

Senator: Xenophon, Nick

Question:

In relation to consistent and transparent reporting of oil and gas reserves:

1. What approach does the US Securities and Exchange Commission have with respect to how reserves are calculated and subsequently reported?
2. Does the SEC approach provide consistency?
3. Does the US SEC insist on full disclosure on a consistent basis of the average sales price (including transfers) per unit of oil produced and of gas produced in each production field?
4. Does the US SEC insist on full disclosure on a consistent basis of the average production cost (lifting cost) per unit of production in each production field?
5. What approach does the ASIC have with respect to how reserves are calculated and subsequently reported?
6. Does the ASIC approach provide consistency?
7. Does ASIC insist on full disclosure on a consistent basis of the average sales price (including transfers) per unit of oil produced and of gas produced?
8. Does ASIC insist on full disclosure on a consistent basis of the average production cost (lifting cost) per unit of production in each production field?
 - a. If not, why not?
9. What is the threshold for reporting of oil and gas reserves? For example, does BHP and Exxon have oil and gas reserves in the Bass Strait and are they reported in each production field?
 - a. If not, why not?

Answer:

1. ASIC does not have any practical experience in relation to the SEC's regulation of this area.
2. Please refer to part 1 above.
3. Please refer to part 1 above.
4. Please refer to part 1 above.
5. ASIC's mandate is to ensure financial markets are fair and transparent, supported by confident and informed investors and financial consumers. The *Corporations Act 2001* (the *Act*), which ASIC administers, contains specific and general disclosure obligations for companies conducting transactions and corporate actions such as fundraising and takeovers.

The Act does not expressly require companies to calculate in a particular way, nor report mineral, gas or oil reserves nor does it necessitate the adoption of a particular

reporting standard when making disclosures in these circumstances. However, for particular transactions regulated by the Act, ASIC has provided guidance that industry codes and standards should be adopted; see ASIC Regulatory Guide 228: *Prospectuses: Effective disclosure for retail investors* at RG 228.16, ASIC Regulatory Guide 111: *Content of expert reports* at RG 111.114-119, ASIC Regulatory Guide 112: *Independence of experts* at RG 112.67-77. For listed companies, additional guidance for the reporting of oil and gas reserves is provided by the ASX in the form of ASX Listing Rules and Guidance Notes, in particular Chapter 5 of the ASX Listing Rules *Additional reporting on mining and oil and gas production and exploration activities* and Guidance Note 32 *Reporting on oil and gas activities*.

The standard widely adopted in the oil and gas industry for the reporting of reserves is the *Guidelines for Application of the Petroleum Resources Management System* prepared by the Society of Petroleum Engineers (the SPE-PRMS). This standard has been adopted into the ASX Listing Rules and is a requirement for the reporting of gas and oil reserves for all ASX listed entities; see ASX Listing Rule 5.25.

The SPE-PRMS provides a framework for the classification and basis of reporting for oil and gas reserves. This framework provides guidance on processes and methodologies of how an evaluator may approach calculation and disclosure of a reserve, but does not prescribe the assumptions and data that must be used. For ASX listed entities, all material economic assumptions are required to be provided when an entity first publicly reports an oil or gas reserve estimate, unless it can be considered commercially sensitive; see ASX Listing Rule 5.31.

ASIC's approach to the calculation and reporting of oil and gas reserves is to ensure the SPE-PRMS framework has been adopted in the reporting of reserves for documents lodged where there would be a reasonable expectation by shareholders or investors that the guidelines would be applicable to disclosures being made, such as statements of oil or gas reserves in a prospectus. For entities listed on the ASX, the SPE-PRMS guidelines are adopted via its Listing Rules, and in that respect apply to all disclosures made on the ASX platform.

6. Please refer to part 5 above. For documents prepared by gas and oil companies that are overseen by ASIC, the regulatory approach provides for consistency of the adoption of the classification and reporting framework of SPE-PRMS but does not extend to ensuring consistency of the assumptions adopted by the evaluators of those statements.
7. No. There is no requirement for this information to be reported to ASIC under the Act or provided to the market under the ASX Listing Rules.
8. No. There is no requirement for this information to be reported to ASIC under the Act or provided to the market under the ASX Listing Rules.
9. Entities listed on the ASX that are not required to lodge annual or other prescribed reports (Forms 10-K and 20-F) with the SEC in the United States are required to provide an annual statement of reserves with their annual report; see ASX Listing Rule 5.39. This statement requires reporting of reserves based on SPE-PRMS classifications and by geographical location. The geological areas by which reserves are reported is a matter for determination by the reporting entity and are not prescribed by the ASX to a production field level; see ASX Guidance Note 32 at 9.2.

Aside from the ASX reporting requirements, ASIC will not generally apply a threshold for the reporting of reserves, unless required by the Act. Under the Act there is no express requirement for the reporting of oil and gas reserves, however a company may be required to provide information to the market regarding oil and gas reserves if they are required to do so under the Act's continuous disclosure regime. The continuous

disclosure regime requires listed entities to lodge with the market operator information required by its listing rules; s674(1) the Act. For ASX listed entities this includes information that a reasonable person would expect to have a material effect on the price or value of an entity's securities, which for an oil and gas company may include new and revised statements of oil and gas reserves; ASX Listing Rule 3.1.

Other than the materiality threshold imposed by the continuous disclosure regime and the requirements of the ASX Listing Rules, there would not be another threshold which triggers a requirement for reporting of oil and gas reserves, as it is not information required to be reported under the Act.