



**RYDER SCOTT COMPANY**  
**PETROLEUM CONSULTANTS**

Houston

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**2009 Ryder Scott Reserves Conference**  
**“Evaluation Challenges in a Changing World”**

**“Third Party Reports – Changes Under the New Regulations”**

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# DISCLAIMER



The information presented in today's presentations represents informed opinions about U.S. SEC reserves reporting regulations but does not purport to be identical to advice to be obtained from the SEC. As with any set of reserves definitions, the applicability of the guidance should be considered on a case by case basis.

## Item 1202 Disclosure of Reserves-Third Party Reports

- Qualifications of Third Party
- Disclosure of Third Party Participation
- Disclosure and Contents of Third Party Exhibits
  - Reports
  - Audits
  - Process Reviews

Q&A Session

# Item 1202 Disclosure of Reserves



*(7) “Preparation of reserves estimates or reserves audit. Disclose and describe internal controls the registrant uses in its reserves estimation effort.*

*...and, if the registrant represents that a third party conducted a reserves audit, disclose the qualifications of the technical person primarily responsible for overseeing such reserves audit.”<sup>1</sup>*

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## Ryder Scott Company’s Current Opinion

- Disclosure of 3<sup>rd</sup> party participation by registrant is not a requirement.
- Disclose the qualifications of the auditing or certifying firm not necessarily the individuals that participated in the evaluations.
  - Control process
  - Upper & project managers
- Consistent with 1202 (8)

# Item 1202 Disclosure of Reserves



(8) *“Third party reports. If the registrant represents that a third party prepared, or conducted a reserves audit of, the registrant’s reserves estimates, or any estimated valuation thereof, or conducted a process review, the registrant shall file a report of the third party as an exhibit to the relevant registration statement or other Commission filing.”<sup>1</sup>*

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## Ryder Scott Company’s Current Opinion

- Disclosure of 3<sup>rd</sup> party participation by registrant is not a requirement.
- 3<sup>rd</sup> Party disclosure exhibit is not the same as the reserves audit or certification report prepared for registrant.
- Confidentiality concerns will have to be addressed.
- Disclosure of 3<sup>rd</sup> party results and figures may not be requested.
  - The ruling is unclear on this matter and leaves room for interpretation.

<sup>1</sup>Federal Register /Vol. 74, No. 9 /Wednesday, January 14, 2009 /Rules and Regulations p 2194

# Reserves Audits and The Contents of Third-Party Reports



- *“These reports need not be the full “reserves report,” which is often very detailed and voluminous. Rather, these reports could be shorter form reports that summarize the scope of work performed by, and the conclusions of, the third party.”<sup>2</sup>*

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## Ryder Scott Company’s Current Opinion

- The focus of the 3<sup>rd</sup> party exhibit appears to aim at obtaining assurances that the 3<sup>rd</sup> party evaluations were done professionally by competent people rather than a disclosure of the actual figures or results of the audit or certification.
- Sarbanes-Oxley Act 2002 driven?

# Reserves Audits and The Contents of Third-Party Reports



- (i) “The purpose for which the report was prepared and for whom it was prepared;*
- (ii) The effective date of the report and the date on which the report was completed;*
- (iii) The proportion of the registrant's total reserves covered by the report and the geographic area in which the covered reserves are located;*
- (iv) The assumptions, data, methods, and procedures used, including the percentage of the registrant's total reserves reviewed in connection with the preparation of the report, and a statement that such assumptions, data, methods, and procedures are appropriate for the purpose served by the report;*
- (v) A discussion of primary economic assumptions”<sup>1</sup>*

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- Item (iii) will require direct input from the registrant as the 3<sup>rd</sup> party may not have the required information.

# Reserves Audits and The Contents of Third-Party Reports



- (vi) “A discussion of the possible effects of regulation on the ability of the registrant to recover the estimated reserves;*
- (vii) A discussion regarding the inherent uncertainties of reserves estimates;*
- (viii) A statement that the third party has used all methods and procedures as it considered necessary under the circumstances to prepare the report;*
- (ix) A brief summary of the third party's conclusions with respect to the reserves estimates; and*
- (x) The signature of the third party.”<sup>1</sup>*

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- Item (vi) can be complicated if it relates to rendering an opinion on country or political risk – not within the scope of a normal audit or certification.
  - Item (vii) may be addressed with a general statement disclosing that the estimation of reserves should not be construed as exact quantities.
    - For probable and possible reserves technical uncertainties can be discussed-see 1202 (5). How about for proved?
  - Item (ix) does not specifically request reserves and income figures but these figures may be required as part of the conclusions.

<sup>1</sup>Federal Register /Vol. 74, No. 9 /Wednesday, January 14, 2009 /Rules and Regulations p 2194



# Discussion versus Ruling Language



- The following language is part of the discussion but is omitted from the ruling:

*“These reports must include the following disclosure, based on the Society of Petroleum Evaluation Engineer’s audit report guidelines”<sup>2</sup>*

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## SPEE Recommended Evaluation Practice #1 – Elements of a Reserve Report

- “The wide variation in types of evaluation reports prohibits the development of strict report standards”
- “Generally the length and level of detail will be tailored to the needs of the client, with relevant information to facilitate clear understanding of the report.”

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## Ryder Scott Company’s Current Opinion

- This does not imply that the 3<sup>rd</sup> party exhibit should include technical detail similar to the Canadian requirements.

# Process Review Disclosure – Internal Audit Teams



## Third party participation in internal audit teams

- Generally no third party independent report is generated.
- Internal audit team prepares report with findings and recommendations.
- Report is considered highly confidential as it contains matters that pertain to personnel, systems and controls.

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## Ryder Scott Company's Current Opinion

- Issue brief one-page document confirming that:
  - the internal process review took place,
  - 3<sup>rd</sup> party participation as a process observer,
  - no 3<sup>rd</sup> party report was independently generated.
- No discussion of the internal audit findings
  - No 3<sup>rd</sup> party report
  - It is the registrant's responsibility to comply with SOX

# Process Review Disclosure – Corporate Reserves Reporting Framework



Third party is involved in the:

- Development of the registrant's reserves reporting framework which define roles and includes processes, controls.
- Establishment and/or update of the registrant's reserves reporting manual.
- Preparation and delivery of reserves estimations and reporting schools.

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## Ryder Scott Company's Current Opinion

- Issue document discussing:
  - the scope and purpose of the consulting services,
  - the approach taken during the project,
  - the final product, generally the reserves reporting manual or the training programs – notice this is a discussion of these products not the products themselves
- Copy of the compliance or comfort letter issued by the 3<sup>rd</sup> party

### Ryder Scott Company's Current Opinion

- It is the 3<sup>rd</sup> party's responsibility to audit / certify the merits of the proposed proved undeveloped reserves.
- It is not necessarily the 3<sup>rd</sup> party's responsibility to issue a report in accordance to Item 1203:
  - Disclosure of material changes in proved undeveloped reserves, including proved undeveloped reserves converted to proved developed reserves.
  - Discuss investments and progress made during the year to convert proved undeveloped reserves to proved developed reserves.
  - Explain the reasons why material amounts of proved undeveloped reserves remain undeveloped for five years or more.

If the registrant chooses to:

- disclose probable and/or possible reserves and,
- represent that a 3<sup>rd</sup> party conducted a reserves audit or certification of these volumes.

It is Ryder Scott Company's Current Opinion that the 3<sup>rd</sup> party exhibit required under Item 1202 (8) contains the same elements regardless of the reserves category.

# Third Party Reports – Conclusions



- Content of the 3<sup>rd</sup> party reserves audit or certification reports to the registrant should not be affected by the requirement to provide a 3<sup>rd</sup> party exhibit to the disclosures.
- Recommend upfront discussions between the registrant and the 3<sup>rd</sup> party to determine the content and format of the 3<sup>rd</sup> party exhibit and to establish each party's responsibilities.
- Certain requirements will necessitate additional information from the registrant.
- 3<sup>rd</sup> party exhibit appears to seek assurances to the quality and competency of the work rather than the actual figures obtained from the study.
  - Protects confidentiality

- 3<sup>rd</sup> parties can efficiently address the requirement of a 3<sup>rd</sup> party exhibit and minimize the impact on their clients by standardizing the exhibit's language.
  - Protect confidentiality
  - Limit liability risk
  - Properly and consistently represent the uncertainties associated with reserves estimations

## **QUESTIONS?**

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