

Rapid Globalisation of Oil and Gas Sector Prompts ASX Review

The Australian Securities Exchange (**ASX**) recently released its latest Listing Rules Review Issues Paper entitled, 'Reserves and Resources Disclosure Rules for Mining and Oil & Gas Companies'.

A copy of the Issues Paper is available on the ASX's website and can be accessed via this [link](#).

The release of the Issues Paper reflects the need to enhance disclosure standards for the oil and gas sectors, to facilitate improved access to capital investment.

Based on its industry research, the ASX believes the quality of disclosure in relation to resources and reserves to be the most important factor determining company valuations in the mining and oil and gas sectors and in assessing capital investment opportunities.

Disclosure in the Petroleum Sector

The Issues Paper is divided into two parts: Part A, which addresses mineral resources and ore reserves reporting; and Part B, which addresses petroleum resources and reserves reporting.

In this update we will focus on the key issues identified by the ASX in relation to petroleum resources and reserves reporting.

Key Issues and ASX Recommendations

The ASX identifies seven principal concerns (listed below) regarding disclosure by listed companies in the oil and gas sector. The Issues Paper seeks comment on specific options recommended by the ASX to resolve each of those concerns. These are summarised below.

Issue 1 – A common classification system

Issue:

The ASX considers the current petroleum resources definitions and classification systems in the Listing Rules (adopted in 1996) to be outdated and inconsistent with those developed by international petroleum industry bodies. Additionally, the ASX is concerned at the use of a variety of petroleum resource classification systems by different companies, potentially confusing investors.

Recommendations:

- Remove the current hydrocarbon reserve definitions from Chapter 19 of the Listing Rules and replace them with SPE-PRMS petroleum resource definitions.
- Introduce a new Listing Rule, requiring the classification and reporting of petroleum reserves in accordance with SPE-PRMS definitions.

Issue 2 – General reporting requirements

Issue:

The ASX has identified a need for the Listing Rules to set out clear minimum disclosure requirements for the reporting of petroleum resources, reserves and related information.

Recommendations:

- Introduce a requirement for estimates of petroleum reserves and other petroleum resources to be prepared, classified and reported in accordance with SPE-PRMS and supported by a set of prescriptive disclosure requirements, to create a clear set of minimum standards around the SPE-PRMS principles-based approach to petroleum resources.

Issue 3 – Annual Reserves and Resources reporting

Issue:

Due to 'significant variation' in companies' annual reporting, the ASX believes that investors require additional transparency and accessibility to petroleum estimates.

Recommendations:

- Introduce a requirement for companies to report annually on their aggregated reserves as at the company's balance date.
- Introduce a requirement for companies to report annually on their governance systems and internal controls that relate to their estimates of reserves and contingent resources.

Issue 4 – Disclosure of drilling progress and exploration information

Issue:

The ASX considers Listing Rules 5.9 and 5.14 to be outdated and not in line with current industry practices and technological developments.

Recommendations:

- Remove the requirement for companies to report regularly on progress, where the information relating to that progress is not expected to be material.
- Amend Listing Rule 5.9 to require companies, when reporting on progress of a drilling program, to disclose specifically prescribed factors.

Issue 5 – Disclosure of key assumptions underpinning estimates

Issue:

The ASX believes that greater disclosure of key assumptions and key technical information underpinning resources and reserve estimates would better facilitate due diligence assessments by analysts and investors.

Recommendations:

- Introduce a requirement for companies to disclose prescribed information when reporting estimates, including (but not limited to) the basis for determining the existence of a discovery and the key economic assumptions used to calculate reserve estimates.
- Introduce a requirement for companies to disclose pricing assumptions, provided such a requirement would not disadvantage the company against its international competitors.

Issue 6 – Disclosure of production targets

Issue:

The ASX is concerned that forward-looking statements, such as production targets, have the potential to be misleading to investors.

Recommendations:

- Introduce a prescriptive disclosure requirement for the reporting of production targets and forecast financial information derived from production targets, contingent resources and prospective resources.

Issue 7 – Qualified Reserves and Resources Evaluator requirements

Issue:

The ASX has noted the importance of having appropriately trained, qualified and experienced individuals estimate reserves and resources.

Recommendations:

- Amend Listing Rule 5.11 to require that reported estimates of resources and reserves and results of drilling, be evaluated and prepared by a qualified 'reserves and resources evaluator' (analogous to the concept of 'Competent Person' under the JORC Code).
- Establish minimum educational and professional experience requirements for qualified 'reserves and resources evaluators' in line with SPE qualification standards.

Questions to Consider

In its Issues Paper the ASX sets out a number of concise consultation questions in relation to each of the issues identified above. Companies are encouraged to provide relevant feedback in relation to the ASX's recommended options by answering those questions.

What action should you take?

Companies can ensure the ASX is aware of the potential impact of its suggested changes by responding to the ASX's invitation for comment. These responses may prevent impractical compliance burdens being imposed that restrict oil and gas companies in the future.

We encourage you to read the Issues Paper and consider the extent to which the ASX's recommended options address your own reporting needs and concerns. The ASX has indicated that minimising the level of compliance burden (including costs) and protection of commercially sensitive information are important principles against which it will assess any proposals for the amendment of the Listing Rules. Accordingly, to the extent that the above recommendations raise concerns of this nature, you should voice those concerns.

Comments should be provided to the ASX by **27 January 2012**.

How Can Squire Sanders Help?

Squire Sanders has comprehensive oil & gas capabilities and a track record of assisting listed companies in this sector. If you would like some assistance in preparing a response to the Issues Paper, or simply have queries in relation to the Issues Paper, please feel free to contact **Amber Stanton, Neil Fearis** or **Robert Eastwood** to discuss.

Further Information

Amber Stanton
Partner
T: 08.9429.7616
E: amber.stanton@ssd.com

Neil Fearis
Special Counsel
T: 08.9429.7621
E: neil.fearis@ssd.com

Robert Eastwood
Senior Associate
T: 08.9429.7568
E: robert.eastwood@ssd.com



'We build relationships of trust through communication and delivering value.'

**SQUIRE
SANDERS**

LEGAL
COUNSEL
WORLDWIDE