

Major Advance in Global Classification Standards for Minerals and Petroleum

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The following is extracted from a report by the author to the International Valuation Standards Committee (IVSC), with minor modifications for the purpose of publication. See AIMA Newsletter, Dec. 2004, for previous coverage of this topic.

I again represented the IVSC at the annual session of the Ad Hoc Group of Experts on Harmonization of Fossil Energy and Mineral Resources Terminology, a body organized by the United Nations Economic Commission for Europe (UNECE). This second session was held at the United Nations' Geneva offices on 9-11 November 2005. The meeting achieved an important agreement for advancement towards uniform global standards for the classification of minerals and petroleum reserves and resources.

The primary focus of the meeting was discussion of the possibility of enhancing the United Nations Framework Classification for Energy and Mineral Resources (UNFC) for implementation globally as the classification standard for use in financial reports under the International Financial Reporting Standards (IFRSs). Presently there are between 100 and 200 mineral and petroleum resource classification (or definition) systems throughout the world — a similar number to what there are countries. Financial reports by a minerals or petroleum company that reports to more than one jurisdiction can be required to comply with differing classification systems and rules, dependent on the jurisdictions in which the reports are being filed. The classification systems used in financial filings may differ from that being used internally by the company geologists and engineers. These may also differ from the classification system required for use in filings with the host government's natural resources department, which system is likely used for compiling and monitoring the state's natural resource base. These inconsistencies result in burdensome costs, plentiful confusion, significant errors, abuse, and sometimes large financial losses and penalties. Substantial differences also exist between the minerals and petroleum industries in the definitions and structures of the most commonly used classification systems, adding to the confusion.

There were approximately 50 participants in the meeting. These included representatives from major petroleum companies, major accounting firms, many government agencies, intergovernmental organizations (OPEC and the Nuclear Energy Agency), NGO's (IVSC and the World Energy Council), the Society of Petroleum Engineers (SPE), and the mining industry's Combined Reserves International Reporting Standards Committee (CRIRSCO).

The meeting management invited me to develop one of the few formal presentations given in the meeting. The title of my 20 minute presentation is, *Resource Codification, Valuation Standards, and Sustainable Development*. It shows the benefits of resource classification and valuation standards to the sustainable minerals and energy resource development goals of the UN. It also provides a global perspective to the relationship of the UNFC, International Valuation Standards (IVS), and IFRSs. I concluded my presentation with a recommendation that CRIRSCO, SPE and related bodies, work with the UNECE expert group to enhance the UNFC with the best of their

respective classification standards and guidelines. This should ensure that the IASB selects the UNFC as the minerals and petroleum classification standard referenced by the replacement IFRS 6 (extractive activities standard) that will result from the IASB's current phase II extractive activities project.

My presentation was well received. Michael Lynch-Bell of Ernst & Young fortified my concluding recommendation with a strong supporting commentary. The meeting unanimously agreed to pursue the enhancement of the UNFC into a strong global "code." The representatives of CRIRSCO and SPE agreed that their respective bodies would create small minerals and petroleum expert teams to carry out the project on a timely schedule.

The UNFC has been evolving since 1992, with early versions focusing on solid minerals, particularly coal. It has been developed through consensus input from western and eastern countries, and from developed and emerging market countries. In 1997, the United Nations Economic and Social Council (ECOSOC) passed a resolution recommending that all UN member countries apply the UNFC to their coal and other solid minerals sectors. In recent years the UNFC has been enhanced by the inclusion of petroleum classification. In July 2004, ECOSOC member states unanimously passed Resolution 2004/233, which recommends that all UN members encourage application of the UNFC worldwide. The contribution of some of our IVSC Extractive Industries Task Force members [Trevor Ellis (AIMA), Donald Warnken (AIMA), and William Roscoe] was recognized within the approved UNFC document.

Due to this progress, the UNFC is the only widely applied classification system incorporating both minerals and petroleum classification. It is rather unique in that it has been designed for use in market and non-market economies. It is also designed for use at the individual deposit level by companies, through to use in national databases for known and potential resource monitoring. Being based on an alpha-numeric code system, its application is largely independent of language. To date though, it has not been approved for corporate financial filings in the western world. The IVS standard for valuations in the extractive industries references the UNFC, the CRIRSCO classification for minerals, and the SPE/WPC/AAPG classification for petroleum. The CRIRSCO classification is used in standards for corporate reporting to the major western world stock exchanges outside the USA, and is designed only for corporate use in market economic settings. The SPE/WPC/AAPG classification has similar application for reporting outside the USA, and is designed for national resource database use. The U.S. SEC maintains its own constrained reserve definitions and reporting requirements in its regulations for minerals and petroleum companies. Testing of the UNFC has demonstrated better than modest compatibility with the CRIRSCO, SPE/WPC/AAPG, and Russian classifications, which will aid transition to the UNFC.

During the first session of the UNECE's Ad Hoc Group of Experts, in November 2004, some influential countries expressed serious disagreements with many of the recommendations put forth. Therefore, I did not expect the substantial accomplishments of this second meeting. In particular, I was pleasantly surprised by the strong support and assistance offered by the CRIRSCO representatives for enhancing the minerals portion of the UNFC classification.

The objectives agreed upon in the Terms of Reference at the close of this session provide a major advance in the development of global standards for the minerals and petroleum industries. A governance and financing structure for this UNFC enhancement project was also drafted.

Documents and presentations from the meeting are available at www.unece.org/ie/se/reserves.html.