

Benefits of Integrating UNFC and SPE-PRMS for Petroleum Financial Reporting and Sustainability

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RESOURCE MANAGEMENT WEEK
2024



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Reserve management systems



United Nations Framework Classification for Resources (UNFC) 2019:

- The UNFC, updated in 2019, serves as a universal language for the classification and reporting of various resources, including petroleum.
- It provides a comprehensive framework that allows for consistent and transparent evaluation and comparison of resource assets across different countries and regions.
- The UNFC ensures that resource assessments are conducted using standardized criteria and terminology, facilitating better communication and understanding among stakeholders in the energy sector.

UNFC Petroleum Specifications 2021:

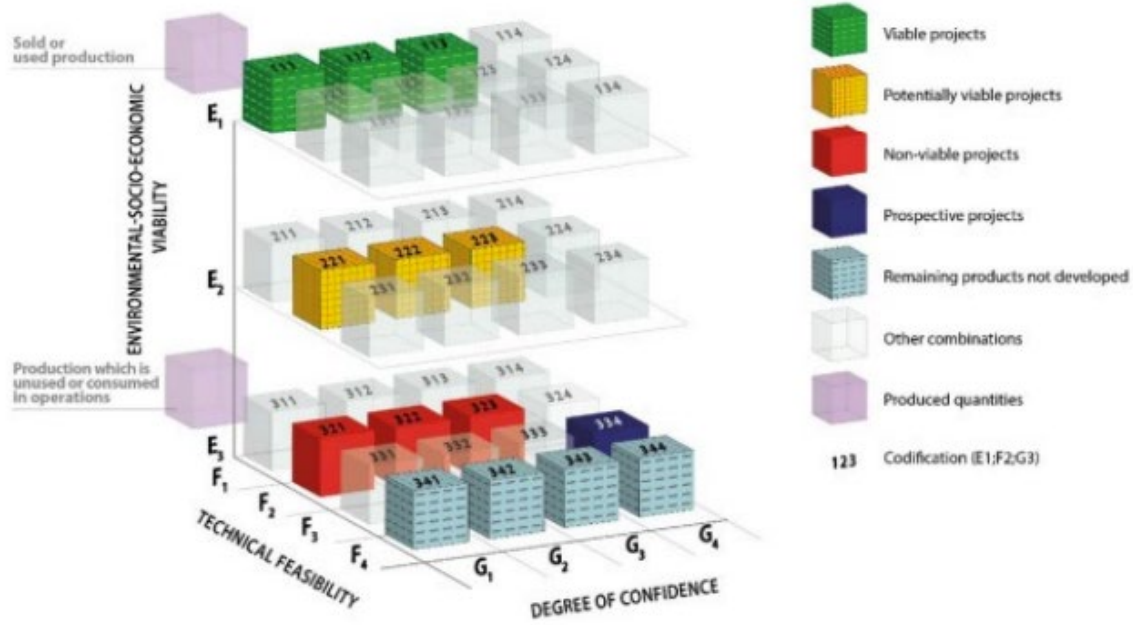
- To ensure the proper application and adherence to the UNFC framework specifically for petroleum resources, the UNFC Petroleum Specifications 2021 document was developed.
- This document provides detailed rules and guidelines for the classification, categorization, and reporting of petroleum resources.
- It offers a standardized approach for evaluating and categorizing petroleum reserves and resources, enabling accurate comparisons and assessments across different projects and jurisdictions.

Petroleum Resources Management System (PRMS) 2018:

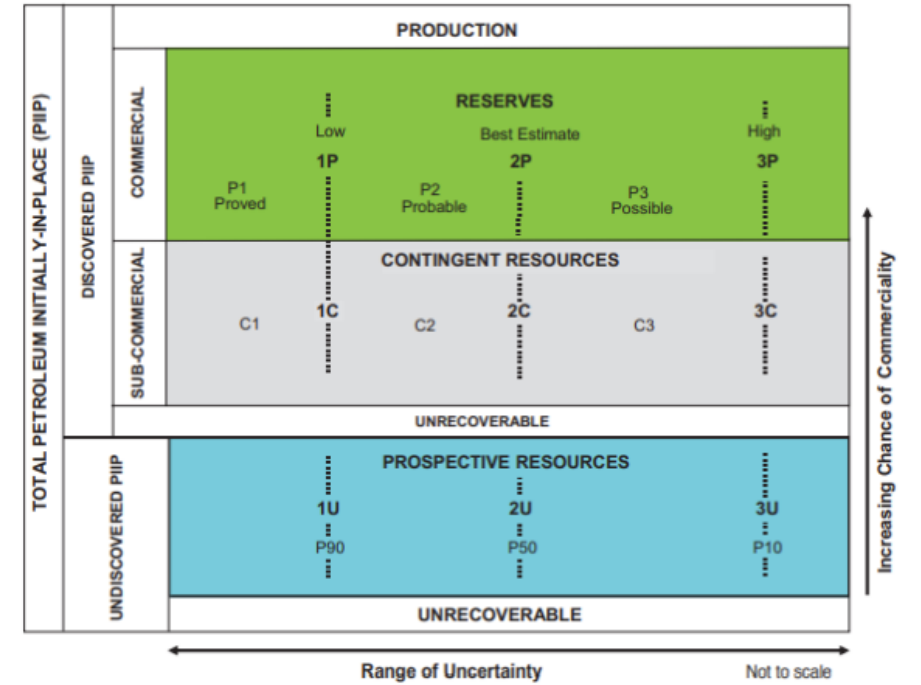
- The Petroleum Resources Management System (PRMS) is an industry-standard classification system for the evaluation and reporting of petroleum resources and reserves.
- Developed by the Society of Petroleum Engineers (SPE), the World Petroleum Council (WPC), the American Association of Petroleum Geologists (AAPG), and the Society of Petroleum Evaluation Engineers (SPEE), the PRMS provides a robust framework for consistent and reliable assessment of petroleum assets.
- The system incorporates guidelines and best practices for estimating reserves, contingent resources, and prospective resources, ensuring that resource evaluations are conducted in a consistent, transparent, and technically sound manner.
- The latest version of the PRMS, released in 2018, reflects the industry's evolving practices and advancements.
- By adhering to the PRMS guidelines, companies and organizations in the petroleum industry can enhance the accuracy and reliability of their resource assessments and effectively communicate the potential value of their assets to stakeholders.

Reserves classification

UNFC Categories Examples of Classes



PRMS Classification Framework



Bridging philosophy



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<i>PRMS Class</i>		<i>UNFC “minimum” Categories</i>			<i>UNFC Class</i>	
Discovered	Reserves	E1	F1	G1,G2,G3	Known Sources	Viable Projects
	Contingent Resources	E2	F2	G1,G2,G3		Potentially Viable Projects
		E3	F2	G1,G2,G3		Non-Viable Projects
	Unrecoverable	E3	F4	G1,G2,G3		Remaining Products ^a
Undiscovered	Prospective Resources	E3	F3	G4	Potential Sources	Prospective Projects
	Unrecoverable	E3	F4	G4		Remaining Products ^a

*G1,G2,G3 – One category or list of same categories can not be In Reserves and Resources due to principle of “Project-Based” will be lost.
E1, E2, E3 – does not take into account full aspects of Social and Environment factors, and needs to be updated.*



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We are we now



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- The Bridging_2023 document updates the PRMS2018(1.03) to reflect current resource classification and reporting advances, ensuring it stays relevant and consistent with industry norms.
- Bridging_2023 aligns PRMS with UNFC_2019 for consistent resource classification and reporting, enhancing global communication and asset comparison.
- The PRMS (Petroleum Resources Management System) and UNFC (United Nations Framework Classification for Resources) are frameworks specifically designed for the technical evaluation and classification of petroleum resources and reserves. They provide a standardized approach to categorizing the amount and status of hydrocarbon inventories in geological formations.
- UNFC and PRMS systems are not developed to offer guidance on financial reporting. Financial reporting encompasses the disclosure of financial results and positions of a company to stakeholders, which includes balance sheets, income statements, and cash flow statements, among other financial documents and notes. The requirements for financial reporting are typically governed by accounting standards such as the International Financial Reporting Standards (IFRS) or Generally Accepted Accounting Principles (GAAP) in the United States.
- While the PRMS and UNFC systems provide a detailed framework for estimating and reporting oil and gas quantities, which can have significant financial implications, the actual monetary value, revenue potential, and associated costs are outside their purview. Companies operating in the oil and gas sector must therefore apply financial reporting guidelines from accounting standards in addition to the resource classification provided by PRMS and UNFC.
- **UNFC and PRMS does not offer financial reporting guidelines; it standardizes resource classification technically, leaving financial reporting to GAAP or IFRS standards.**
- **Lack of Exact Mapping Table of Reserves and Resources for UNFC and PRMS for E Axes.**



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Questions and Answers



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Why integrate UNFC and SPE-PRMS?

- UNFC and SPE-PRMS are two widely used frameworks for classifying and reporting petroleum resources.
- These frameworks have different scopes, definitions, criteria, and applications, but they also share some common features and benefits.
- How UNFC and SPE-PRMS work, how they can be harmonized, and what are the advantages and challenges of integration.

What is UNFC?

- UNFC is a universal framework for managing all resources, such as minerals, petroleum, renewables, and anthropogenic resources.
- It is based on three dimensions: socio-economic viability (E), project feasibility (F), and geological knowledge (G)
- It provides principles, specifications, and guidelines for classifying and reporting resources in an integrated and sustainable manner.
- It supports the implementation of the 2030 Agenda for Sustainable Development Goals and the Paris Agreement on climate change.

What is SPE-PRMS?

- SPE-PRMS is an industry specific framework for classifying and reporting petroleum resources.
- It is based on one dimension: resource maturity (1P/2P/3P)
- It provides definitions, standards, and best practices for estimating and disclosing petroleum resources and reserves.
- It is widely adopted by the petroleum industry, regulators, investors, and analysts.

How do UNFC and SPE-PRMS compare?

- UNFC and SPE-PRMS have different scopes: UNFC covers all resources and sustainability-focused taking it to account current and long term social and environment aspects, while SPE-PRMS covers only petroleum resources focused on current monetary estimation of resources.
- UNFC and SPE-PRMS have different definitions: UNFC uses environmental-social-economic, project feasibility and degree of confidence definitions, while SPE-PRMS uses specific terms focused on the confidence in current (the date of estimation) estimates.
- UNFC and SPE-PRMS have different criteria: UNFC uses three dimensions axes, while SPE-PRMS uses two dimension.
- UNFC and SPE-PRMS have different applications: UNFC is used for integrated resource management and sustainability both for private sector and independent states, while SPE-PRMS is used for petroleum resource reporting and valuation for far broader use than UNFC.



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Questions and Answers



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How can UNFC and SPE-PRMS be integrated?

- UNFC and SPE-PRMS are related through a bridging document that map the categories of one framework to the categories of another framework.
- Integration could be enhanced with further guidance on quality, consistency, and transparency of petroleum financial reporting and sustainability by providing a common language and a comprehensive view of resources.
- Integration can also facilitate communication and collaboration among different stakeholders, such as resource owners, operators, regulators, investors, analysts, civil society and independent states on UNCE platform.
- Integration can also support the transition to low-carbon energy solutions by enabling the assessment of resources in terms of their social, environmental, and economic impacts for projects where the shift from economics to social and environments indicators needed.

How does integration work in practice?

- Methodology, assumptions, limitations
- Benefits and challenges of integration in terms of resource management, investment decisions, market transparency, and stakeholder confidence both withing the economic, social, and environmental scope

What are the main take aways?

- The value proposition of integrating UNFC and SPE-PRMS for petroleum financial reporting and sustainability.

Parties to be involved

From UNFC - Victor Babashev, PWG Chair

From SPE – Ignatiy Volnov, OGRC member.



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Action plan 2024-2025



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- 1. Integrated Financial Reporting Standards for PRMS and UNFC:** There is a growing need to create integrated financial reporting standards that align both the Petroleum Resources Management System (PRMS) and the United Nations Framework Classification for Resources (UNFC) with the sustainable development goals (SDGs) and environmental, social, and governance (ESG) requirements of financial institutions, both at the corporate and state levels. By developing these integrated standards, stakeholders can ensure that financial reporting takes into account the broader impact of petroleum projects on society and the environment. These standards would enable a more comprehensive evaluation of projects, considering their sustainability and long-term viability, and facilitate the alignment of financial decision-making with SDGs and ESG objectives.
- 2. Cross-Matching Projects for Reserves, Contingent Resources, and Prospective Resources:** It is essential to cross-match projects between UNFC and the United Nations Resource Management System (UNRMS), considering the E axes that encompass social and environmental aspects. By undertaking this cross-matching process, stakeholders can gain a comprehensive understanding of the potential social and environmental impact of projects at different stages, including reserves, contingent resources, and prospective resources. Such an evaluation would facilitate the identification of potential risks, opportunities, and mitigation measures associated with resource extraction, ensuring responsible and sustainable development in the petroleum sector.
- 3. UNFC-PRMS Financial Reporting Bridging Document:** To address the need for harmonized financial reporting between UNFC and PRMS, the development of a UNFC-PRMS Financial Reporting Bridging (FRB_2024) document is proposed. This bridging document would provide comprehensive guidelines for aligning the financial reporting aspects of both frameworks, ensuring consistency and comparability in reporting practices. By establishing a common understanding of financial reporting requirements and guidelines, the FRB_2024 document would facilitate accurate and transparent reporting of financial information related to petroleum projects. It would serve as a valuable resource for companies, organizations, and regulatory bodies, enabling them to effectively communicate the financial performance and economic value of petroleum resources while integrating the principles of UNFC and PRMS.

The integration of financial reporting, cross-matching projects, and the development of a UNFC-PRMS Financial Reporting document would contribute to a more holistic and sustainable approach in the petroleum industry. By considering the SDG and ESG, as well as social and environmental aspects of projects, stakeholders (corporate and states) make informed decisions, enhance transparency, foster responsible practices to align with global sustainability objectives.



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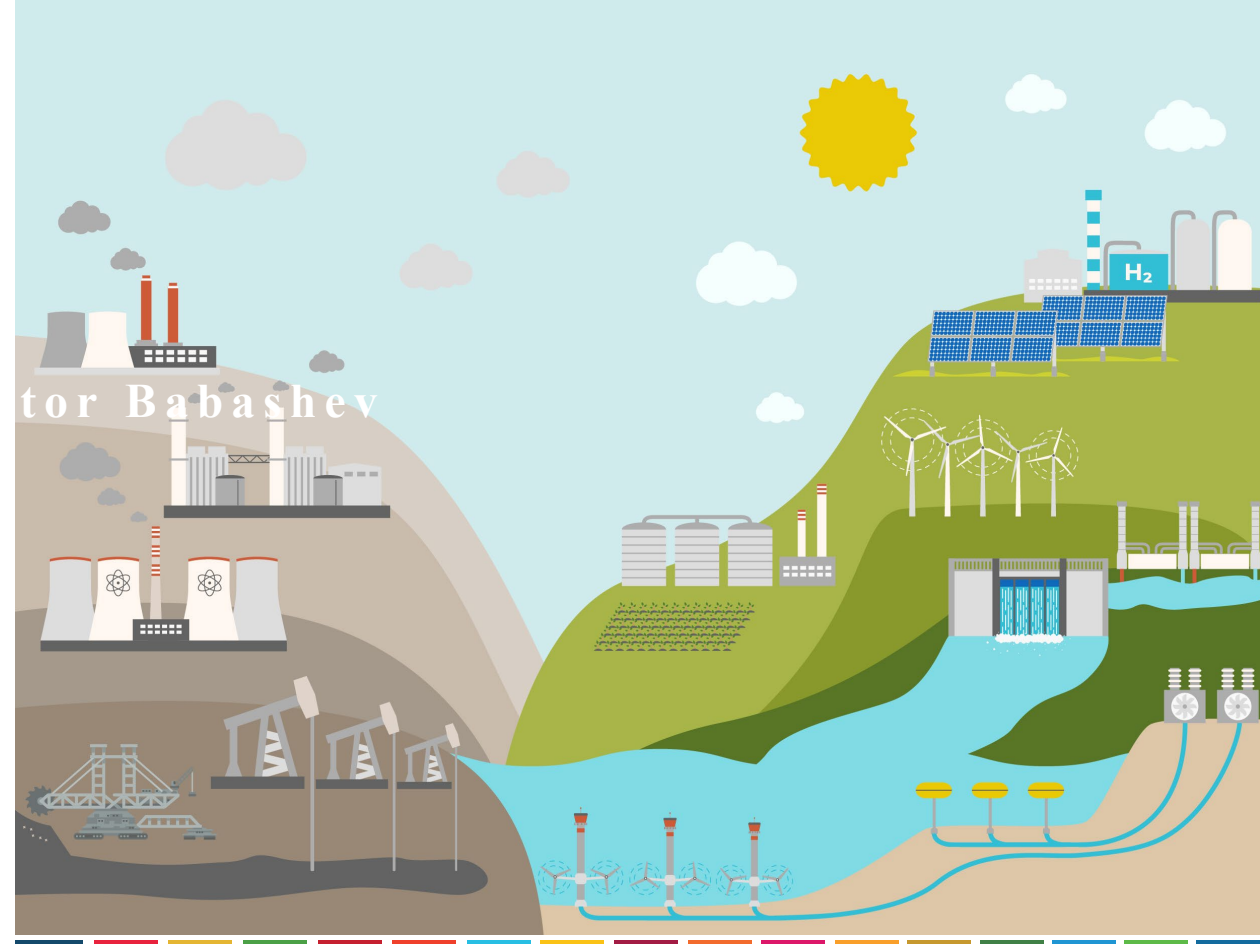
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Thank you!

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25 | 04 | 2024, Geneva



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