Lessons Learned about Standards from Applying Both VALMIN and USPAP on a Complex Appraisal Project

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USPAP

The Uniform Standards of Professional Appraisal Practice:

• Developed by the Appraisal Foundation
  – Authorized by Congress
• First edition 1986-87
• Enforced by regulation in all States since 1995
• Required by Federal Agencies
• Required by the major appraisal institutes
The VALMIN Code

- Developed by The AusIMM
- First released 1995
- Required for reporting under Australian securities law
- Internationally acclaimed
- The Canadian CIM reviewing for use as the basis of its standards
- The AIMA is reviewing for use as the basis of its standards
Why try them together?

- The VALMIN Code is for mineral assets
- The client needed a very defensible appraisal
  - VALMIN would add credibility
- USPAP was required
- I wanted to test VALMIN on a complex US appraisal
  - Knowledge for standards development
Notification

• Some facts and omissions of fact maybe misleading
• I include some experiences from two other attempts

That is, I don’t want anyone guessing the project or client
The Subject Property

- US mining property
- Post feasibility study
  - Well into excavation and construction
- 100% owned and operated by client
- Client is US stock exchange listed
The Appraisal Team

- Minerals Appraiser
  - Trevor as geologist, economist, lead appraiser
  - Process Engineer and Cost Specialist
- Real Estate Appraiser
- Water Appraiser
- Two specialist real property appraisers

All well recognized, certified appraisers, bound by USPAP
Appraisal Report Products

• The main report
  – A Complete Appraisal
  – More content than required for a Summary Report format
  – My responsibility

• Each appraiser developed a standalone appraisal report

• All based on USPAP Real Property Standards

• No business value to be included
USPAP Difficulties

• Many USPAP requirements omitted
  – Highest and Best Use
  – Effective Date
  – Intended Use
  – Scope of Work description

• Lack of consideration of all three approaches to value
  – Reliance on income approach – potential disaster
USPAP Difficulties

• Many inconsistencies relative to ground rules and basic assumptions
• Impenetrable technical jargon used
  – non-technical audience
• Report structure lacking
  – no Table of Contents
Lessons Learned

• Working through the client with the other appraisers is not functional
  – Severe embarrassment for all concerned
  – Causes weeks of delays
Lessons Learned

• Purchase some demonstration real estate appraisal reports
  – Complete Self-Contained
  – Complete Summary

• Report structure should follow USPAP headings
  – Table of Contents listing USPAP items
VALMIN Difficulties

We were doomed from the start
VALMIN Difficulties

- Majority of mineral estate value was in non-reserve mineralization
- SEC Industry Guide 7
  - Resource estimate not released to public
- Contracts required all appraisers to use only publicly domain data and personal inspection of the tract
- Published reserve data seriously out of date
VALMIN Difficulties

VALMIN requirement

The client must certify:

• Complete, Accurate and True Disclosure to the appraisal team

• That the appraisal team will have access to Client’s personnel and records
VALMIN Difficulties

VALMIN requirement

The review and reporting on all significant mineralization, resources and reserves, must abide by the Australasian JORC Code

If impractical, explain why.
VALMIN Difficulties

Solution to JORC requirement:
- Obtained all public domain drilling data
- I geologically mapped the property
- Developed my own resource estimate
- Blew the doors off our budget!!
VALMIN Difficulties

• Sales data now incompatible
  – Resources not reported
• Developed resource estimate for our best sale from drilling data and geology
• Blew the doors off our budget again!!
More VALMIN Difficulties

- VALMIN requests Business related items:
  - Employee relations
  - Liabilities and Financial Exposures
  - Sharemarket and Economic Conditions
  - Vendor Considerations
- Exclusion appears to violate VALMIN
- In the US, business value should not be included in real property Market Value
More VALMIN Difficulties

• Provides high standards for labeling and presentation of maps and cross-sections
• For the subject and sales properties, most of ours obtained in the public domain.
• Many days spent labeling maps and sections
• Copied maps failed to meet readability requirement
The Final Nail in the Coffin

The subsidiary appraisal reports also need to abide by VALMIN

Surface
Water
2 specialty real property
Lessons Learned

• VALMIN is strongly oriented to reporting for the stock exchanges and related use
• VALMIN’s requirements to address business related items violate US real property market value standards
• VALMIN’s standards can be onerous even for a major real property appraisal
• SEC reporting rules conflict with VALMIN