Mineral Property Valuation Standards – A US Perspective

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SAIMM’s Valuation Code Colloquium, Randburg, RSA
Mineral Property Valuation Standards – A US Perspective

Subtitle:
Marching with the International Valuation and International Financial Reporting Standards
Recomendations

- Oppose proliferation of national standards
- SAIMM should adopt the International Valuation Standards (IVS)
- Mining industry must actively and financially support the International Valuation Standards Committee (IVSC)
The Reality of Mineral Valuation Standards Writing

- Few Mineral Valuer Specialists
  - Burden of work falls to 2 or 3
- Difficult to address all necessary issues
- Quick adoption unlikely without regulatory pressure
  - Lots of conflict and controversy
  - Could take years (SAMREC Code 8 yrs)
- Standard adopted is soon out of date
Ellis’ Involvement

- AIMA VALMIN-based standard development
  - Began drafting 1999
  - Application on 3 valuation assignments failed
  - Cancelled the standard development

- 2000, campaigned for global approach
  - Liaison with IVSC

- Feb. 2001, formed IVSC Extractive Industries Task Force
Need for Global Standard

- Mining companies and mineral valuers work internationally.
- Companies report internationally to:
  - Securities markets
  - Investors
  - Lenders
- Investors and lenders compare projects internationally.
- 150+ countries need standards.
What is the International Valuation Standards Committee?

• Publishes International Valuation Standards
  – For all asset types
  – For all purposes and users
  – Published in a number of languages

• Provides valuation standards support for *Current Value* financial reporting, particularly to IFRS

• 50 member states (countries)

• UN NGO working closely with World Bank, EU, BIS, OECD, IMF, WTO, Basel Banking Committee, etc.

• Funded entirely by industry (approx. $800,000/yr)

• Standards adopted directly by many countries
What are the International Valuation Standards (IVS)?

- 2001 Edition 458 pages
- Contains:
  - Valuation Concepts and Principles
  - Code of Conduct
  - Instructions for the 4 Property Types:
    - Real Property, Personal Property, Businesses, Financial Interests (Intangibles)
  - Market and Non-Market Standards
  - Valuation instructions for Financial Reporting (IFRS) and Lending use
  - Guidance Notes and Commentaries
  - Glossary (80 pages)
International Valuation Standards Committee
Structure of Standards, Applications, Guidance Notes, and Commentary

**FUNDAMENTALS**

- History, Introduction, Constitution, Organization and Format of Standards
- General Valuation Concepts and Principles

**PROPERTY TYPES**

- Real Property
- Personal Property
- Businesses
- Financial Interests

**VALUE TYPES**

- Market Value
- Other Than Market Value

**STANDARDS**

- Standard 1 Market Value Valuations
- Standard 2 Non-Market Value Valuations

**APPLICATIONS**

- Valuation Application for Financial Reporting
- Valuation Application for Lending Purposes

**GUIDANCE NOTES**

- Real Property Valuation
- Valuation of Lease Interests
- Valuation of Plant and Equipment
- Intangible Assets
- Using Concern (Concept of) Valuation
- Business Valuation
- Consideration of Hazardous and Toxic Substances (In Valuation)
- Depreciated Replacement Cost (DRC)

**COMMENTARY**

- Investment Properties

**ADDENDA**

- Glossary of Terms

**Note: These three Guidance Notes all reference specialized trading properties**
What is the International Accounting Standards Board?

- International Accounting Standards (IAS) developed largely by volunteers for IASC, over 27 years
  - Current Value (Cost) accounting system
- May 2000, IOSCO endorsed IAS for cross-border filings (except extractive industries)
- June 2000, European Commission ruled all EU listed companies to use IAS by 2005
- December 2000, IASB replaced IASC
  - Largely to satisfy USA
  - Paid full-time Board members
  - Approx $20 million/yr funding (much from USA)
What are the International Financial Reporting Standards (IFRS)?

- March 2001, IASB replaced IAS global Harmonisation project with IFRS global Convergence project
- Creating the “Gold Standard”
  - Taking best instructions from leading nations’ accounting standards and IAS
  - Country representatives working one-on-one
- Non-prescriptive standards
- Increased emphasis after Enron $60+ billion collapse and other fiascos
IASB’s Extractive Industries IFRS Project

• Begun 1998 for mining and petroleum industries reporting
• Issues Paper, 412 pages, released Nov. 2000
• Responding Submissions closed June 2001
• Recommendations from Submissions review (by South Africa) due May 2002
• Final release of IFRS due 2004
  – Robert Barnett, South African, ex-Anglo American Corp, committee leader
IASB’s Extractive Industries IFRS Project

- Steering Committee Views, Nov. 2000
  - Historic Cost Reporting Only in primary accounts
    - (Current Value Reporting Allowed for all other Industries)
  - Quantitative disclosure of Reserves Only

- Most submissions support Historic Cost limitation
  - Including JORC’s submission

- Will severely handicap stock price and fund raising
  - Companies will become takeover targets
IVSC Extractive Industries Project

• Task Force convened Feb. 2001
• To provide support to IASB’s Extractive Industries project through:
  – Submissions
  – Direct Consultation
  – Publishing an Extractive Industries section in IVS
• Tentative IVS Extractive Industries schedule
  – Begin drafting May 2002
  – Exposure Draft December 2002
  – Finalise 2003
  – Very Difficult, but Needed to support IASB’s project
IVSC’s Submission to IASB
June 2001

- Extractive Industries IFRS should allow:
  - Current Value Accounting based on:
    - Mining Industry *Fair Value* of Proved & Probable Reserves
    - Petroleum Industry *Fair Value* of Proved Reserves
  - Disclosure of Mining Industry Reserves & Resources
    - Disclosure of Fair Value of Measured & Indicated Resources
    - Qualified disclosure of Fair Value of other mineral properties
  - Disclosure of Petroleum Proved & Probable Reserves
    - Disclosure of Fair Value of Probable Reserves
    - Qualified disclosure of Fair Value of other petroleum properties
  - Historic Cost reporting remains optional
• Mineral Reserve & Resource estimates must comply with a CMMI-based standard
• Valuations must be by defined Competent Persons
  – Names and qualifications to be disclosed in the financial report
• Valuation and Reserve-Resource reports available for public and peer review
IVS Extractive Industries Addition

- Rely on existing IVS valuation framework
  - No duplication necessary
- For financial reporting and other purposes
  - Supplemental instructions specific to IFRS
- Non-Prescriptive guidance
  - Provide principles, concepts, general direction, goals
  - Expect and Require good judgment, honesty, professionalism
- Provide guidance specific to minerals & petroleum
  - Reserves & resources
  - Differences between minerals and petroleum industry definitions
  - Classifying properties into the 4 Property Types
- Provide supplementary competency requirements
IVS Implementation in Mining Industry

• Recommend that CMMI drafts supplementary guidelines and assistance documents in 2003
  – Should remain non-prescriptive
  – Supplemental Ethics and Competency requirements

• Recommend that National bodies:
  – Adopt IVS and the CMMI supplement by reference
  – Draft supplemental instructions for unique national circumstances
  – Provide enforcement and disciplinary procedures
IVS Concerns – Flexibility

• Must be suitable for Developed and Developing Country use

• Must provide for levels of reporting appropriate to:
  – A wide variety of report users
    • A mining company, a non-mining industry individual
  – A wide variety of subjects:
    • A large mining company, a single unexplored mining claim
  – A wide variety of intended uses
    • Financial reporting, lending, legal, planning, estate taxes, negotiations, etc.
IVS Concerns - Education

• Shortage of professional Valuers prevented US adoption of Current Value reporting in early 1970s
• Potential global shortage of Valuers competent to perform mining and petroleum Market Valuations
  – Few minerals industry valuers have formal Market Valuation training
• Need (Market) Valuation courses
  – Teach Generally Accepted Valuation Principles of IVS
Potential Positive Outcome

- Global uniform adoption of IASB’s IFRS
  - Includes Current Value Extractive Industries Standard per IVSC recommendations
- Results in global adoption of
  - CMMI-based Reserve-Resource reporting Standards
  - IVS with Extractive Industries standard
  - Competent Person and Ethics provisions
- Uniform global updates to Standards
South African Situation

- Needs Mineral Valuation Standard immediately(?)

- Recommendation:
  - SAIMM immediately adopt IVS by reference
    - Provides a very comprehensive valuation framework
  - Supplement with enforcement provisions
  - Possibly supplement temporarily with modified CIMVal.
Industry Support Required

- Mining and Petroleum industries must actively support IVSC’s Extractive Industries initiative
  - Required schedule of IASB support cannot be accomplished by unpaid volunteers
- IVSC needs immediate financial support (by May)
  - Large mining companies should donate R500,000
  - Small mining companies should donate R100,000
  - Nothing received as yet from mining nor petroleum
- Send to IVSC at:
  12 Great George St
  London, UK SW1P 3AD
See www.ivsc.org
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