

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**

Recommendations

- 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- Standard adopted is soon out of date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

International Valuation Standards 2001



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

CODE OF CONDUCT

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

SEE NON-MARKET
VALUE CHART

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

GOING-
CONCERN
(CONCEPT OF)
VALUATION

BUSINESS
VALUATION

CONSIDERATION
OF HAZARDOUS
AND TOXIC
SUBSTANCES
(IN VALUATION)

DEPRECIATED
REPLACEMENT
COST
(DRC)

SPECIALIZED TRADING PROPERTIES**

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

IVSC's Submission to IASB

- 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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