

## **Current Standards Development Activities**

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Standards development activities relevant to minerals and petroleum valuation have reached a rather frenzied level recently. The following is a brief summary.

Two small working groups have begun review work in preparation for the convergence project between the International Valuation Standards (IVSs) and the USA's Uniform Standards of Professional Appraisal Practice (USPAP). A joint press release issued by the International Valuation Standards Committee (IVSC) and The Appraisal Foundation on 19 June 2006 says, "Both parties commit themselves to the ultimate goal of a single set of understandable and enforceable global valuation standards." The rather urgent need for this convergence project has been largely driven by the on-going convergence project for the International Financial Reporting Standards (IFRSs) and the US Generally Accepted Accounting Principles (US GAAP).

It will be interesting to see how this project proposes to resolve the very different formats of the IVSs and USPAP texts. Also, the IVSs has a standard for valuation of minerals and petroleum industry assets, whereas USPAP does not specifically address these assets.

On 20 September 2006, the US Financial Accounting Standards Board (FASB) issued its Statement of Financial Accounting Standards (FAS) No. 157, titled Fair Value Measurements. This standard clarifies market measurement criteria for financial reporting, and will provide consistency across US GAAP. It introduces the unique concept of a fair value hierarchy. The standard includes the conventional appraisal concepts of highest and best use, and three approaches to value. The International Accounting Standards Board (IASB) will rely heavily on this standard as a basis for enhancing its equivalent market measurement criteria for its IFRSs.

In the introductory statement to FAS 157, FASB states:

"This Statement emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, this Statement establishes a fair value hierarchy that distinguishes between (1) market participant assumptions developed based on market data obtained from sources independent of the reporting entity (observable inputs) and (2) the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The notion of unobservable inputs is intended to allow for situations in which there is little, if any, market activity for the asset or liability at the measurement date. In those situations, the reporting entity need not undertake all possible efforts to obtain information about market participant assumptions. However, the reporting entity must not ignore information about market participant assumptions that is reasonably available without undue cost and effort."

The International Accounting Standards Board's Extractive Activities Project Team is nearing completion of its multi-year research project on the financial reporting concepts for the minerals and petroleum industries, including the reporting of reserves and resources, and the fair valuation of those. This research project has been undertaken by representatives from the Australian, Canadian, Norwegian, and South African accounting standards boards. The cut-off of input to this very in-depth research project is scheduled for 31 October 2006. In the next few months, the team will present its recommendations to the IASB. A number of Working Papers will also be presented, which distill the results of the project team's research. The Board will then proceed to draft the comprehensive Extractive Industries standard that will replace the preliminary IFRS 6 released on December 2004. It will be interesting to see the extent to which the standard includes fair value reporting of minerals and petroleum assets.

The two year development of the IVSC's Extractive Industries Technical Paper is nearing completion. This paper is being developed by the IVSC's Extractive Industries Task Force (chaired by this author), which also developed the extractive industries valuation standard (Guidance Note 14) first published in the IVSs in 2005. The technical paper will provide best practice guidelines to supplement the standards. Its development has paralleled the work of the IASB Extractive Activities Project Team, to support that research and provide supplemental reference for the drafting of the Extractive Activities IFRS. Beyond that, the technical paper will provide best practice guidelines for the spectrum of minerals and petroleum valuation uses.

The completion date is also pending for the convergence project on petroleum and mineral reserve-resource classification standards. This research project is being undertaken primarily by the Society of Petroleum Engineers (SPE) and the minerals industry's Committee for Reserves International Reporting Standards (CRIRSCO), in conjunction with the IASB, the International Organization of Securities Commissions (IOSCO), and the United Nations Economic Commission for Europe (UNECE). Concurrently, the SPE and CRIRSCO have been working on harmonization of the United Nations Framework Classification for Energy and Mineral Resources (UNFC) with the SPE/WPC/AAPG petroleum classification system and the CRIRSCO minerals classification. This also involves enhancement of the UNFC to "code status," for use as a standard for reporting to the securities markets. A December 2005 letter from Sir David Tweedie, IASB Chairman, strongly requested that the two industry sectors try to complete the convergence process by the end of 31 October 2006, to allow the outcome to be used by the IASB's project team.

The results of this research will be presented at the United Nations in Geneva, Switzerland, on 11-13 October 2006, to the UNECE Ad Hoc Group of Experts on Harmonization of Fossil Energy and Mineral Resources. Representatives of the IASB will be among the high level delegations present at the meeting to review the results and recommendations. The author will be representing the IVSC.

In light of all of this activity, we can be sure that interesting outcomes lie ahead over the next few years as these standards are finalized and implemented.