Development of the
International Valuation Standards Committee’s
Best Practice Guidelines for
Valuations in the Extractive Industries

Trevor R. Ellis, MSc, CPG, CMA, FAusIMM
Chairman, Extractive Industries Task Force
International Valuation Standards Committee

Mineral Property Valuer
Ellis International Services, Inc.
Denver, Colorado, USA

International Mining Forum, Szczyrk, Poland, 25-29 Feb. 2008
Summary

• IVSC Technical Paper:
  – *Valuation of Properties in the Extractive Industries*
• Scheduled for publication in 2008
• Will supplement the *International Valuation Standards* with best practice guidelines
• In development for 4 years
International Valuation Standards (IVSs)  
Mineral Valuation Standards

• 2005, the Seventh Edition of the IVSs contains mineral and petroleum valuation standards
  – Published by the International Valuation Standards Committee (IVSC)
• Designed for worldwide use
• Based on comprehensive Generally Accepted Valuation Principles (GAVP)
• 2007, the Eight Edition, 462 pages
Current Status of Technical Paper Development

• Reviewed by the leader of the International Accounting Standards Board’s Extractive Activities Project Team
  – Recommendations incorporated

• Reviewed twice by the full Standards Board of the IVSC during 2007
  – Approved for public exposure subject to further editing
Current Status of Technical Paper Development

• Extractive Industries Expert Group in dispute with IVSC Standards Board involving foundation principles of the market valuation standards
• The entire IVSC is presently dissolved and being restructured
• New Standards Board to be in place in May
• Expert Group awaits the new Board’s schedule
Development History

- June 2003: IVSC Chairman requested the Extractive Industries Expert Group to draft a Technical Paper to supplement the extractive industries standards we were drafting.
- September 2003: We began planning the purpose and type of content of the Technical Paper.
- October 2003: Standards Board cancelled a previously requested addendum to the extractive industries standards. Much of the content is to be moved into the Technical Paper.
Development History

• September 2004: Outline for the Technical Paper completed. Support to progress with drafting received from IVSC.
• December 2004: Began drafting of text.
• February 2005: The extractive industries standard was published in the IVS Seventh Edition as Guidance Note 14
• March 2005: The first IVSC Technical Paper was published, Mass Appraisal for Property Taxation.
• The full Standards Board reviewed the extractive industries paper April and November 2007, each time requesting edits.
IVSC Extractive Industries Expert Group

• All volunteer (unpaid) members
  – Trevor Ellis, USA, Chairman
  – William Roscoe, Canada
  – Alastair Macfarlane, South Africa
  – Donald Warnken, USA
  – Raymond Westwood, Australia

• The same members as in June 2003 when the IVSC Chairman requested that the Group draft the paper.
Initial Fast-Track Development Plan

• The fast-track development schedule planned for publication in second half of 2005.

• A similar development schedule to that of the standards of the Extractive Industries Guidance Note (GN).

• For timely availability to the Extractive Activities Project Team of the International Accounting Standards Board (IASB).
  – Conducting research for the proposed content of the Extractive Activities International Financial Reporting Standard (IFRS).
Factors that Slowed Development

- IASB research schedule delayed a number of years
- The complexities of writing the Paper to meet a number of goals and changing expectations
- The Group members found it difficult to keep putting volunteer work ahead of plentiful, lucrative, extractive industries valuation work
  - We already did that for two previous IVSC projects
The Planned Content

• The Expert Group planned and drafted the Paper to fulfill the following primary purposes:
  – Provision of best practice guidelines to supplement the IVSs
  – Teach the fundamental valuation principles to interested extractive industry practitioners and users
  – Specify appropriate conduct and ethical principles for production of unbiased valuation reports
  – Provide information on appropriate sources of education and credentialing for extractive industries valuers
  – Advise the user about minerals and petroleum industry standards, practice, defined terms, and financial reporting requirements
Initial Scope of the Paper

• The Paper was to be limited in size to maintain its character as a paper providing best practice guidelines
  – Examples are rarely used. No illustrations, tables, example calculations, or data are included.
  – The drafting through to its completion in March 2007 was directed to achieve all of these purposes.
  – The completed draft submitted to the Standards Board in April 2007 was approx 16,000 words.
    • Included an addendum on minerals and petroleum valuer education and qualifications.
Philosophical Difficulties Encountered

• Now 10 months since the completed draft was delivered to the Standards Board
• The Paper has undergone a number of rounds of editing by Standards Board members.
• The editing has now focused the document entirely on the first of the five listed purposes:
  – Provision of best practice guidelines to supplement the standards provided by the Extractive Industries GN.
• Deleting everything included for the other purposes that is not necessary for the first purpose.
Philosophical Difficulties Encountered

• Now 7 years since we first convened the IVSC Extractive Industries Expert Group.

• The IVSC has grown and matured:
  – Paralleled the growth and maturing of the IASB with the global adoption of the IFRSs.

• By June, the IVSC will have transformed its structure from a small, all-volunteer organization, into a well-funded organization, with full-time salaried management.
Philosophical Difficulties Encountered

- The structure and content of the entire IVS standards book is to be tightened.
- This growth, maturation, and transformation is reflected in the evolution of the strict opinion of the Standards Board on the limited purpose and content of the Technical Paper.
- At the time we planned the Paper, the IVSC had no defined structure or guidelines for a Technical Paper.
The Expert Group has taken a stand pertaining to the fundamental economic principles for classification of valuation methods within the three valuation approaches.

Viewed by the Group as a critical issue for valuations of mineral and petroleum properties.

Settlement of this dispute must await consideration by the incoming Standards Board.
Finalization of the Technical Paper

• The dispute must be settled with the new Standards Board
• The restructured purpose and content requirements must be approved by the new Board.
• The exposure draft of the Paper should then be released for public comment.
• Comments received will be reviewed by the Expert Group for possible integration into the Technical Paper.
• The revised Paper will then be reviewed by the Standards Board. The Paper should then go to the IVSC editor and operating management for publication.