

Securing Investments through Appropriate Financial Reporting – Application of IVSC and IASB Standards

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UNECE's Ad Hoc Group of Experts on Supply of Fossil Fuels
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Uniform Standards Needed Globally

- Classification of Resources and Reserves
 - Which classification system?
 - UNFC for minerals and petroleum
 - CRIRSCO-based classifications for minerals
 - WPC-SPE-AAPG classification for petroleum
- Valuation of Resources, Reserves and other assets
 - International Valuation Standards (IVS)
- Financial Reporting to Stock Markets
 - International Financial Reporting Standards (IFRSs)



Uniform Standards -- Why Needed Globally

- Globalisation
 - International comparisons, reliance and transactions
- International operations by companies
- International investment
- International securities selling and trading
- International lending
- International banking
- International insurance
- International aid programs
- International consulting and worker mobility



Who Wants Uniform Global Standards?

- Companies
- Investors
- Lenders
- Regulators



Who Does Not Want Uniform Global Standards?

- Those scared of change
- Those who benefit from the inefficiencies of artificial barriers



Need for a Global Extractive Industries Valuation Standard

- Minerals and petroleum companies work internationally
- Minerals and petroleum valuers work internationally
- Companies report internationally to:
 - Securities markets
 - Investors
 - Lenders
- Investors and lenders compare projects internationally
- 190+ countries need standards
- Required to support current value accounting for the extractive industries in the IFRS



International Valuation Standards Sixth Edition 2003



International
Valuation Standards
Committee



International Valuation Standards – 2003 Structure

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

- Fundamentals
- Code of Conduct
- Property Types
- Value Types
- Standards
- Applications
- Guidance Notes
- Commentary
- Addenda

International Financial Reporting Standards (IFRSs™)

including International Accounting Standards (IASs™)
and Interpretations as at 31 March 2004

Armenia
Aruba Austria Australia
Bahamas Bahrain Bangladesh
Bangladesh Belgium Benin Bosnia and Herzegovina
Bosnia and Herzegovina
Bulgaria
Canada
Cayman Islands
Chad
China
Croatia
Cuba
Cyprus
Czech Republic
Denmark
Dominican Republic
Ecuador
Egypt
Estonia
Finland
France
Germany
Ghana
Gibraltar
Greece
Guatemala
Guyana
Haiti
Honduras
Hong Kong
Hungary
Iceland
Ireland
Italy
Jamaica
Jordan
Kenya
Kuwait
Kyrgyzstan
Laos
Latvia
Lebanon
Lichtenstein
Lithuania
Luxembourg
Macao
Madagascar
Malawi
Malta
Mauritius
Myanmar
Namibia
Netherlands
Netherlands Antilles
Nepal
New Zealand
Nicaragua
Norway
Oman
Panama
Paraguay
Peru
Poland
Portugal
Romania
Russia
Seychelles
Serbia and Montenegro
Singapore
Slovakia
Slovenia
South Africa
South Korea
Spain
Sweden
Switzerland
Tajikistan
Tanzania
Thailand
Timor
Trinidad and Tobago
Turkey
Ukraine
United Arab Emirates
United Kingdom
Zambia
Zimbabwe

Get Ready for 2005
with IFRSs & IASs



International
Accounting Standards
Board®



Need for International Financial Reporting Standards

- So that companies can report their financial statements to many stock markets without adjustments
- So that investors can easily compare financial statements of companies on different stock markets



International Financial Reporting Standards (IFRSs)

- As of 2005, most of the world reports under the IFRSs
 - Except, USA and Canada
- USA and Canada collaborating on convergence of GAAP with IFRSs
- IASB is creating the “Gold Standard”
 - Incorporating the best instructions from the leading financial reporting standards of the world
- Non-prescriptive standards



Extractive Activities IFRS

- Nov. 2004, IFRS 6 for exploration and evaluation assets published
 - In effect in much of world Jan. 2005
 - In effect in most of the remainder in Jan. 2007
 - Contains revaluation (fair value) provision for exploration properties
 - Upward revaluation not allowed for exploration results



Extractive Activities IFRS – Stage 2 Project

- To develop standards for reporting minerals and petroleum production activities
- To develop standards for quantitative reporting of reserves and resources
 - What classification system(s) will be used?
 - Consider including standards for fair value reporting of Reserves and Resources
 - For Reserves? For Resources?
 - In the primary accounts?



Securing Investments Through IFRS Reporting

- Globalisation of IFRSs aids uniformity of competition for investment throughout the world
- Current value reporting for the minerals and petroleum industries will aid level competition among industries for financing
 - Allowing reporting of current value of minerals and petroleum deposits will be very important
- Investor understanding of, and confidence in the information companies provide is needed



Securing Investments Through Loan Financing

- Lender understanding of, and confidence in the information received is needed
- Lenders want uniform global standards for Reserve and Resource classification and valuation
- Need confidence that company submissions abide by standards and the work is of high quality



Securing Investments

– Resource Estimator Qualifications

- Who is qualified to report Resource and Reserve quantitative and qualitative estimates?
- Which body's certifications/licenses should be allowed and trusted?
 - Who decides?
- Abidance by Code of Conduct (Ethics) required
 - Sanctions required for violations
- International reciprocity required to allow mobility of resource estimation experts



Securing Investments

– Valuer Qualifications

- Who is qualified to develop and report market value estimates for Resources, Reserves, and mineral/petroleum property interests (rights)?
- Which body's certifications/licenses should be allowed and trusted?
 - Who decides?
- Abidance by Code of Conduct (Ethics) required
 - Sanctioning system needed for violations
- International reciprocity required to allow mobility of minerals/petroleum valuation experts



Securing Investments

– Valuer Qualifications

- Potential severe shortage of qualified, competent, certified minerals/petroleum valuers
 - American Institute of Minerals Appraisers has only 37 Certified Members (minerals and petroleum)
 - Certified Members are required to apply the USA's standards or the International Valuation Standards
- Market Value estimates by others are often wrong by orders of magnitude
 - The IVS Extractive Industries GN will help



Securing Investments

– Valuer Education

- Only a few minerals and petroleum valuation short courses teach market valuation principles
 - No university programs
- No comprehensive textbook is available



Securing Investments

– Valuer Education

- How can comprehensive minerals/petroleum valuer education be made available?
- Who is qualified to teach it?
- Continuing education courses are needed
- Securities regulators and the UN's Economic and Social Council should consider sponsoring the development of minerals/petroleum valuer education



Securing Investments

– Market Transaction Data

- Research for suitable sales/trades/leases of mineral and petroleum properties/tenements or rights can cost many thousands of dollars per valuation report
- No comprehensive commercial or publicly accessible database tracks minerals or petroleum property/rights sales/transactions globally, or even in the USA



Securing Investments

– Market Transaction Data

- Relevant market sales/transaction data is needed for a valuer to develop a good market value estimate for a subject property
- Securities regulators and the UN's Economic and Social Council should consider sponsoring the development of a publicly accessible database that collects minerals and petroleum property/rights sales/transaction price information globally
 - A quasi-commercial venture for buying and selling data



Conclusions

- The extractive industries additions to the *International Valuation Standards* and *International Financial Reporting Standards* should improve the efficiency of securing financing for the minerals and petroleum industries
- Uniform professional certification requirements are needed worldwide for financial reporting



Conclusions

- Minerals/petroleum valuer education programs and needed globally to overcome a pending shortage of qualified professionals
- Development should be sponsored of a publicly accessible database that collects and sells minerals and petroleum property/rights sales/transaction price information globally.

