

The Extractive Industries Addition to the International Valuation Standards

Trevor R. Ellis, CPG, CMA, CGA, FAusIMM

Mineral Property Appraiser

Ellis International Services, Inc.

Denver, Colorado

www.minevaluation.com



Leader – International Valuation Standards Committee's
Extractive Industries Task Force

CAPE Minerals Appraisal Symposium, Denver, Oct. 1-3, 2003

Minerals Valuation Standards Development Initiatives

- 1995 – Australian VALMIN Code. Enforceable on AusIMM members for financial reporting. Introduces important fundamental principles. 1998, petroleum added.
- 1999 – AIMA modifies VALMIN for USA use. Violates generally accepted valuation principles (USPAP and IVS). Set aside for research and to participate in international coordination. 2003, AIMA development initiative renewed.

Minerals Valuation Standards Development Initiatives

- 2003 – Canadian CIMVal Standard introduced. Designed to integrate with IVS.
- 2002 – South African SAMVal Code drafted. Designed to integrate with IVS and IFRS.
- 2002 – IVSC begins developing Extractive Industries Standard for mid-2004 introduction.

Minerals Valuation Standards Development Initiatives – Others?

- Early 1990s ? – RICS' Red Book incorporates a Wasting Asset Practice Statement encompassing mines.
- 2002 – MMSA-IMPS take over AIMA's 1999 VALMIN modification initiative.



INCORPORATED BY ROYAL CHARTER 1955

MINVAL⁸⁹
MINING AND PETROLEUM VALUATION 1989

MINING and PETROLEUM VALUATION 1989

SHERATON WENTWORTH HOTEL
SYDNEY, AUSTRALIA

4-5 September, 1989

The Australasian Institute of Mining and Metallurgy

MAJOR SPONSOR: COUNTY NATWEST AUSTRALIA CORPORATE SERVICES LIMITED



Mineral Industry Consultants
Association Founded 1980



VALMIN⁹⁴

MINERAL VALUATION METHODOLOGIES 1994

MINERAL VALUATION METHODOLOGIES 1994

Sydney, Australia
27 - 28 October 1994

The Australasian Institute of Mining and Metallurgy
Mineral Industry Consultants Association

Major Sponsor





Mineral Property Valuation Proceedings

PAPERS PRESENTED AT MINING MILLENNIUM 2000

AT A JOINT MEETING OF THE CANADIAN INSTITUTE OF MINING, METALLURGY AND PETROLEUM (CIM)

AND THE PROSPECTORS AND DEVELOPERS ASSOCIATION OF CANADA;

DURING A SYMPOSIUM ORGANIZED BY THE CIM VALUATION COMMITTEE

MARCH 8, 2000
TORONTO, ONTARIO
CANADA

Co-Chairs:

Keith N. Spence B.Sc. (Hons), MBA

William E. Roscoe Ph.D., P.Eng.

Published by the Canadian Institute of Mining, Metallurgy and Petroleum



Mineral Industry Consultants
Association Founded 1960



//////**VALMIN**⁰¹
MINERAL ASSET VALUATION ISSUES 2001

MINERAL ASSET VALUATION ISSUES
FOR THE NEXT MILLENIUM 2001

Sydney, Australia
25-26 October 2001

Organised by the
Mineral Industry Consultants Association



The South African Institute of Mining and Metallurgy
Founded in 1894

COLLOQUIUM

VALUATION OF MINERAL PROJECTS AND PROPERTIES: AN AFRICAN PERSPECTIVE

19-20 March 2002

MINTEK, RANDBURG

Cairns, Queensland

27-28 May 2002



Hosted by
The Australasian Institute
of Mining and Metallurgy
"The AusIMM"

CMMI Congress 2002

(Council of Mining and Metallurgical Institutions)

International Codes, Technology and Sustainability for the Minerals Industry

Principal Sponsor

**RIO
TINTO**

Major Sponsor


bhpbilliton

Proceedings



2000 SME ANNUAL MEETING & EXHIBIT



**February 28 – March 1
Salt Lake City, Utah**

Need for a Global Extractive Industries Valuation Standard

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

What is the International Valuation Standards Committee?

- Formed 1981
- Publishes the International Valuation Standards (IVS)
 - 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 for IFRS
- 35 member states (countries)
- UN NGO working closely with World Bank, EU, BIS, OECD, IMF, WTO, Basel Banking Committee, etc.
- Funded entirely by industry (approx. US\$800,000/yr)
- Standards adopted directly by many countries



International Valuation Standards Sixth Edition

2003



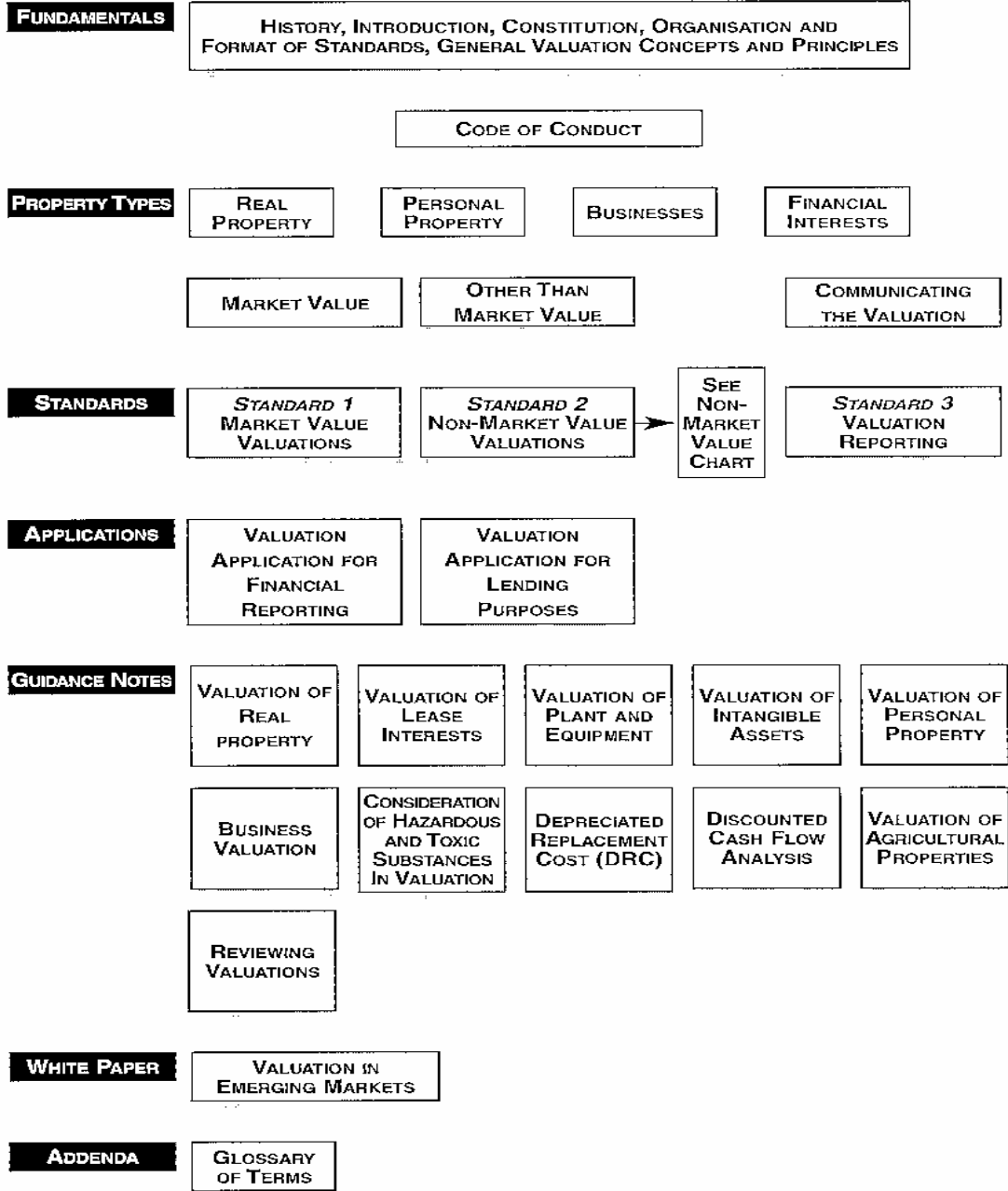
International
Valuation Standards
Committee

What are the International Valuation Standards (IVS)?

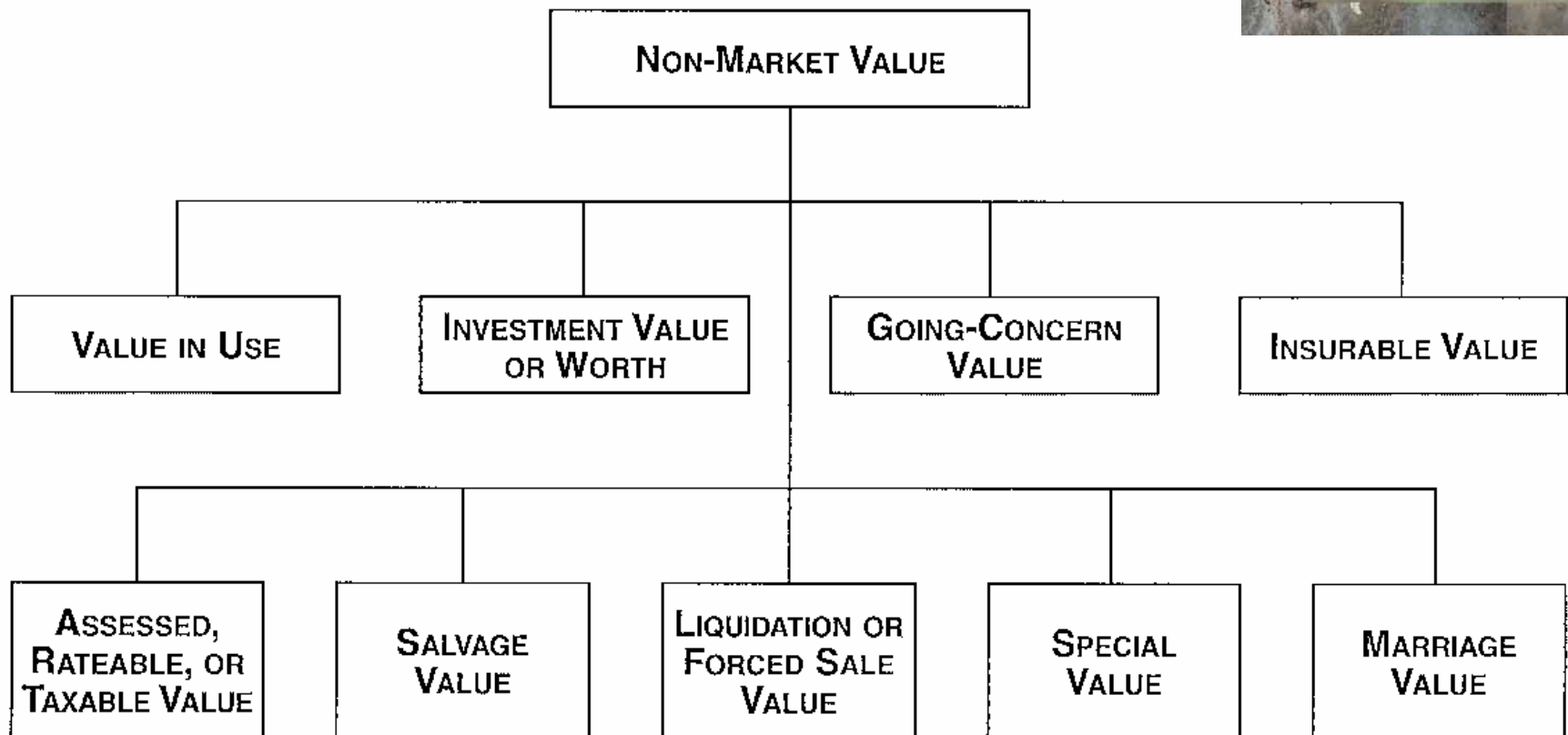
- 2003 Edition 500 pages
- Contains:
 - General Valuation Concepts and Principles
 - Code of Conduct
 - Instructions for the four Property Types:
 - Real Property, Personal Property, Businesses, Financial Interests (Intangibles)
 - Market and Non-Market Standards
 - Valuation instructions for Financial Reporting (IFRS) and Lending use
 - 11 Guidance Note specialty standards
 - Glossary (110 pages)



Structure of the Standards Document



Non-Market Value Components



IVS Supported by Nth American Appraisal Societies

- A Strategic Alliance exists between AIC, AI, ASA, ASFMRA
- In May 2003 Memorandum of Understanding:
 - “The Organizations, agree to the following:
 - Recognize and support the International Valuation Standards promulgated by the IVSC;
 - Recognize and support the Appraisal Foundation in its efforts to coordinate their standards with other nations and international standards from the IVSC;”

IVSC and IASB Extractive Industries Projects

- IASC Extractive Industries Issues Paper released November 2000, in response to IOSCO May ruling
- Extractive Industries International Accounting Standard development fast tracked for release Q4 2002
- Ellis contacted IVSC Chairman, expressing severe concerns.
- IVSC asked Ellis to form Task Force.
- Task Force convened Feb. 2001

What is the International Accounting Standards Board?



- International Accounting Standards (IAS) developed by volunteers for IASC, beginning 1973
 - Current Value (Cost) accounting system
 - Goal of global *harmonisation* of accounting systems
- May 2000, IOSCO endorsed IAS for cross-border filings (except extractive industries)
- June 2000, European Commission ruled that all EU listed companies must use IAS by 2005
- December 2000, IASB replaced IASC
 - Largely to satisfy USA
 - Paid full-time Board members
 - Approx US\$20 million/yr funding (much from USA)

What are the International Financial Reporting Standards (IFRS)?

- March 2001, IASB replaced the IAS global *Harmonisation* project with the 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’s US\$60+ billion collapse and other massive financial reporting fiascos

ISSUES PAPER

NOVEMBER 2000

EXTRACTIVE INDUSTRIES

An Issues Paper issued for comment by the
IASC Steering Committee on Extractive Industries



International
Accounting Standards
Committee®

Extractive Industries Issues Paper

Views Expressed

déjà vu SEC's Industry Guide 7

- Disclosure of Reserves only
- Reserve estimation criteria to be reviewed
 - IASB may develop its own Reserve definitions
- Historic Cost Accounting only
 - Pseudo-value of Reserves allowed in supplementary information only
 - (Current Value Accounting allowed for all other Industries)

Resulting Extractive Industries IFRS if direction unchanged

- Historic Cost Accounting only for mining and petroleum industries
 - Most responses to IASB support Historic Cost limitation (including the major accounting houses, and JORC's submission).
- Current Value (*Current Cost*) Accounting allowed for all other industry sectors
- **Will handicap stock prices and minerals and petroleum industry funding**
 - **Our companies will become takeover targets**

IVSC Extractive Industries Task Force

- Task Force convened Feb. 2001
 - To provide support to IASB's Extractive Industries project through:
 - Submissions
 - Direct Consultation
 - Publishing Extractive Industries standard in IVS
- Members are the global minerals and petroleum valuation standards leaders

IVSC Extractive Industries Task Force

- IVSC filed its very comprehensive response to the Issues Paper in June 2001
 - the only comprehensive response on improvement of existing industry reporting practices, competent person requirements and sanctions, and detailed support of fair value measurement of in-situ assets.
- IVSC's submission available on www.ivsc.org.

IVSC Extractive Industries Task Force

- Q2 2002, IASB farmed out its Extractive Industries project to standards setters of Australia (lead), South Africa, Norway and Canada.
- 2002-2003, IVSC and Task Force members maintain communication regarding both parties standards development. Resulting outcomes appear very favorable. Integration of extractive industries into existing IASB standards.

IVSC's Submission to IASB

June 2001

- Extractive Industries IFRS should allow:
 - Current Value Accounting based on:
 - Mining Industry *Fair Value* of Proven & 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

June 2001

- Mineral Reserve & Resource estimates must comply with a CMMI /CRIRSCO-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 standard Drafting 2002-2003

- Task Force's development proposal (content and schedule) approved by IVSC Board in September 2002.
- First Draft critiqued by IVSC's Standards Board in Cape Town, South Africa, March 2003.
- Final Draft has been submitted for review in Hong Kong, October 13-16, by IVSC's Standards Board and Management Board.

IVS Extractive Industries standard Drafting 2002-2003

- Exposure Draft expected to be released to public in late October.
- Finalized standard scheduled for publication in Mid-2004.
- The difficult, fast track schedule **needed** to support IASB's project.

IVS Extractive Industries standard Drafting 2002-2003

- Relies on existing IVS valuation framework
 - No duplication necessary
- Designed for all minerals and petroleum appraisal purposes, including financial reporting
 - Supplemental instructions specific to IFRS
- Non-Prescriptive guidance
 - Provides principles, concepts, general direction, goals
 - Expect and Require good judgment, honesty, professionalism

Probable U.S. Adoption of the International Financial Reporting Standards (IFRS)

- 1983 SEC began meeting with IASC
- 1988 US Financial Accounting Standards Board (US FASB) joined IASC consultative group
- 1996 Congress passed the *National Capital Markets Efficiency Act* encouraging IAS-based reporting
- May 2000 IOSCO recommends IAS to its members
 - EU companies must convert by 2005
- December 2000 IASB formed (to satisfy U.S.)
 - Leading U.S. financial players involved
 - U.S. providing much of the funds

Probable U.S. Adoption of the International Financial Reporting Standards (IFRS)

- July 2002, IASB board member becomes FASB Chairman
- Oct. 2002, FASB-IASB *convergence* agreement signed.
- Outcome:
 - Will the U.S. adopt current cost (current value) accounting? **Probably will.**
 - Will Industry Guide 7 be superceded? **Yes**
 - Will IVS replace USPAP. **Probably, with a U.S. Addendum.**

Extractive Industries Standard Content

The Guidance Note:

1. Introduction

- Differences or special features of the minerals and petroleum industries

2. Scope

- What the standard covers and its relation to other portions of IVS.

3. Definitions

4. Relationship to Accounting Standards

Extractive Industries Standard Content

5. Guidance

- Valuation Concepts
- Competence and Impartiality
- Special Considerations of Extractive Industries Valuations
- Disclosure in Extractive Industries Valuation Reports

Extractive Industries Standard Content

Addendum to Guidance Note

A1.0 Introduction

A2.0 Definitions

A3.0 Relationship to Accounting Standards

A4.0 The Commissioning Entity

A5.0 Conduct of the Valuation

- A5.1 Extractive Industries Valuation Approaches
- A5.2 Cost and Revenue Assumptions

A6.0 Supplementary Disclosure

What's Next?

- Technical Paper for IVSC website
- Implementation and Enforcement
- Education