

Reporting Standards – The USA Experience *Achieving True Globalisation – Problems & Solutions*

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Items to Address

- U.S. Reserve-Resource reporting
- U.S. Valuation reporting
- Competent Person and Ethics Code implementation
- Interstate barriers to minerals industry professionals
- Probable U.S. adoption of the International Financial Reporting Standards (IFRS)
- Potential negative outcome of IFRS Extractive Industries Standard
- The global benefits of modifying that outcome

U.S. Reserve-Resource Reporting

- Security and Exchange Commission's *Industry Guide 7*
 - The controlling standard for public disclosure
 - Introduced in 1981 as *Form S-18*
- Defines *proven* and *probable reserves*
- Prevents disclosure of “resources”
- Measured and Indicated Resources can be disclosed as *Mineralized Material*

U.S. Reserve-Resource Reporting

- SEC Reserve definitions prevent use of CMMI/SME Reserve definitions
- Reserves must be economically and legally mineable *now* (not “reasonable expectations” of CMMI-based standards)
 - If at an operating mine, based on a prefeasibility study
 - Otherwise, based on a feasibility study
 - Using current prices

Value Reporting under SEC

- Only assign value to Reserves
 - Not to Resources
- Value based only on historic cost accounting
- But, most of the value may be in Resources and exploration potential
- Also, historic cost accounting value has little relation to market price
- For mergers and acquisitions, *market value* or *Fair Value* allowed

Uniform Standards of Professional Appraisal Practice

- The U.S. national valuation (appraisal) standard
- Adopted into law by all 50 states
- Requirements for use vary State-by-State
- USPAP does not specifically address mineral properties
 - Encompassed in Real Property Standards 1 and 2
 - Mineral businesses encompassed in Standards 9 and 10

U.S. Mineral Valuation Standards

- American Institute of Minerals Appraisers' 1999 initiative set aside
 - Based on the VALMIN Code
 - Author wrote papers documenting findings from research and experience
 - Concluded that such standards need to interface with national and international valuation standards
- MMSA in March 2002 circulated a draft VALMIN-based standard
 - Can't succeed for many reasons

U.S. Codes of Ethics and Competent Person

- U.S. has no national institute equivalent to AusIMM
- SME considering creating a subsidiary body
 - Binding Code of Ethics
 - Primarily for Competent Person requirement outside U.S.
- Lack of enforcement of Codes of Ethics by many U.S. societies
 - High U.S. litigation costs
 - (also discourages some State Boards)
- Proliferation of Codes of Ethics
 - Conflicts of rules
 - Combination more restrictive

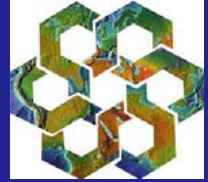
State Licensure Barriers to Professional Practice

- Global CMMI-based reporting depends on Competent Persons working across international borders
- U.S. can't participate
 - Professions licensed State-by-State, not nationally
 - Geologists, engineers, valuers (appraisers), accountants, lawyers, etc.
 - Little reciprocity between States (some comity)
 - Foreign independent consultants generally need State licensing to work legally in U.S.
- U.S. professionals could see increasing restrictions on their ability to practice internationally

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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 large fiascos

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
 - 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
- July 2002 IASB board member becomes FASB Chairman

IASB's Extractive Industries IFRS Project

- Begun 1998 for mining and petroleum industries reporting
- *Issues Paper* released November 2000 (412 pages)
- Submissions closed June 2001
- Recommendations from Submissions review due May 2002
- Final release of standard due 2004 (but drifting?)

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

Concerns Expressed about CMMI-based Standards

- Lack of standardisation of economic inputs for Reserve estimation
- Mining's use of deterministic based classification versus petroleum's probabilistic based SPE-WPC classification
- The international mining community (including CMMI, JORC, etc) failed to address concerns
- Submission by International Valuation Standards Committee (IVSC) did address them

Resulting Extractive Industries IFRS if direction unchanged

- Essentially SEC's *Industry Guide 7* goes global
- Disclosure of Reserves only allowed
 - No disclosure of Resources estimates
- **It will globally remove much of the benefit of CMMI-based standards**

Resulting Extractive Industries IFRS if direction unchanged

- Historic Cost Accounting only for mining and petroleum industries
 - Most submissions to IASB support Historic Cost limitation (Including JORC's submission)
- Current Value (*Current Cost*) Accounting allowed for all other industry sectors
- **Will handicap stock prices and industry funding**
 - **Our companies will become takeover targets**

Need for a Global Valuation 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
- Required to support a current value accounting extractive industries IFRS

What is the International Valuation Standards Committee?

- 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 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. US\$800,000/yr)
- Standards adopted directly by many countries



International Valuation Standards 2001



IVSC



**International
Valuation Standards
Committee**

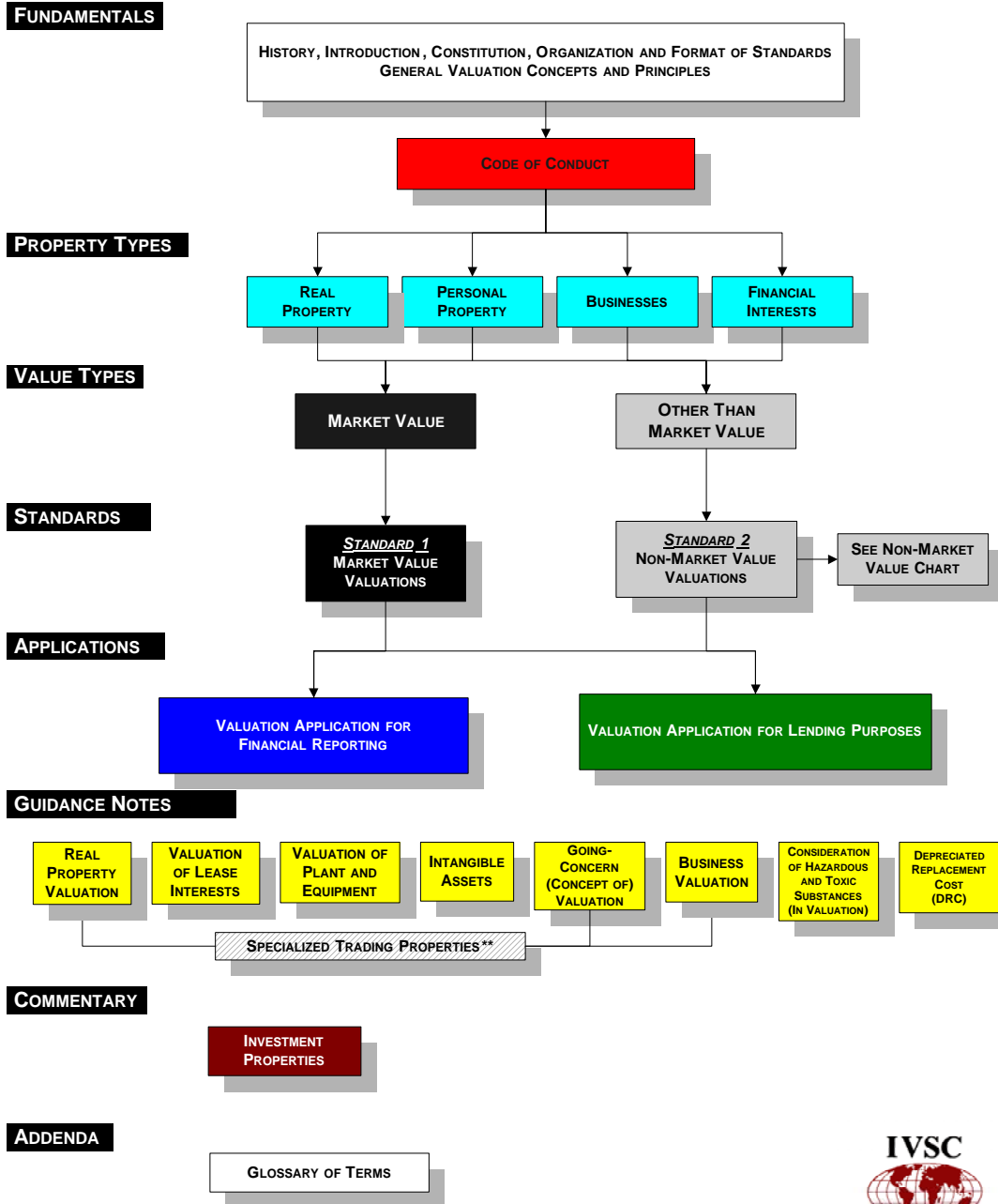
What are the International Valuation Standards (IVS)?

- 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



**Note: These three Guidance Notes all reference specialized trading properties

IVS Extractive Industries Addition - Drafting 2002

- Rely on existing IVS valuation framework
 - No duplication necessary
- For all purposes, including financial reporting
 - Supplemental instructions specific to IFRS
- Non-Prescriptive guidance
 - Provide principles, concepts, general direction, goals
 - Expect and Require good judgment, honesty, professionalism

IVSC Extractive Industries Project

- Task Force convened Feb. 2001
- To provide support to IASB's Extractive Industries project through:
 - Submissions
 - Direct Consultation
 - Publishing Extractive Industries supplements in IVS
- Tentative IVS Extractive Industries schedule
 - Begin drafting supplement June 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

June 2001

- 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 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

- 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