

# *An International Perspective on U.S. Minerals Appraisal Standards Development*

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

Mineral Property Appraiser

Ellis International Services, Inc.

Denver, Colorado

[www.minevaluation.com](http://www.minevaluation.com)



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

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# Minerals and Petroleum Appraisal Standards Development – Major Questions

- Is it needed? Why?
- Who would use it?
- What body should develop it?
- What should it contain?
- What body should maintain and enforce it?
- How to educate the appraiser and appraisal users?

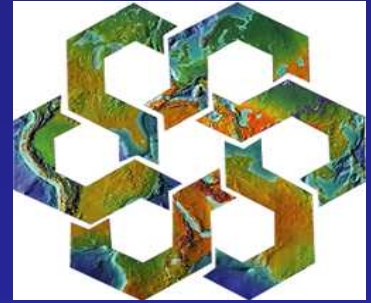
# Current U.S. Minerals Appraisal Standards Developers

- American Institute of Minerals Appraisers (AIMA)
- Mining and Metallurgical Society of America – International Mining Professionals Society (MMSA – IMPS)
- Centre for Advanced Property Economics (CAPE). Information collection

# Purpose of International Context

- See what international bodies are doing
- See if international developments may influence future U.S. needs
- Learn from what other countries are doing
- Consider possible coordination with international development initiatives

# International Accounting Standards Board



- Draft Extractive Industries International Financial Reporting Standard 2004-2005
  - Implement in 2 phases ~ 2005-2007
- U.S. Financial Accounting Standards Board's *convergence* agreement of Oct. 2002
  - Will the U.S. adopt current cost (current value) accounting?
  - Will Industry Guide 7 be superceded?

# 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

### 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



# International Valuation Standards

## Extractive industries appraisal guidance

- Minerals and petroleum
  - The 4 property types
  - All appraisal purposes
- Fast track for IFRS support
- First draft March 2003
- Exposure draft October 2003
- Release 2004

# Australia's VALMIN Code

- By Australasian Institute of Mining & Metallurgy
- 1<sup>st</sup> Edition 1995
- 3<sup>rd</sup> Edition under development
- Appraisal of Minerals and petroleum assets
- Primarily for securities industry reporting
- Not compliant with Generally Accepted Valuation Principles (GAVP)
- Provides business value of assets
  - 1 of 4 property types
- Introduced fundamental minerals appraisal principles

# Canada's CIMVal Standard

- By Canadian Institute of Mining, Metallurgy and Petroleum
- Submitted for securities regulatory approval
- Standards and Guidelines for appraisal of mineral properties
  - i.e. real property value; 1 of 4 property types
- All appraisal purposes
- GAVP compliant
- Designed to interface with IVS
- Strong emphasis on sales analysis

# South African SAMVAL Code

- Most advanced of the three
- By South African Institute of Mining & Metallurgy
- 2<sup>nd</sup> draft released
- All 4 property types; all appraisal purposes
- Integrates the IVS by references and reliance
- Guidance provided for reporting under IFRSs

# U.S.A. Status

# Uniform Standards of Professional Appraisal Practice

- The U.S. national appraisal standard
- Adopted into law by all 50 states
- Requirements for use vary State-by-State
- Comprehensive appraisal standard for all purposes and uses
- Does not provide specific guidance for appraisal of minerals nor petroleum assets

# American Institute of Minerals Appraisers

- 1999 initiative set aside
  - Based on the VALMIN '98 Code
  - SME published author's papers documenting findings from research and experience
    - Violated GAVP
    - Produced only business value of assets
    - Must interface with national and international valuation standards
- New initiative now beginning

# Mining and Metallurgical Society of America – International Mining Professionals Society

- 4<sup>th</sup> draft released of USMinval
- Direct modification of VALMIN '98
- All problems found with AIMA's modification of VALMIN remain



# Centre for Advanced Property Economics (CAPE)

- Research body sponsored by the major U.S. appraisal institutes
- Subsidiary body established 2002 for minerals appraisal research
- October 2003 conference in Denver to obtain input for possible standards development

U.S. Minerals Appraisal  
Standards Development  
Questions

# Is there Adequate Need?

- Why is it needed?
- Some consider USPAP an adequate framework
  - Supplement with SME Reserve-Resource guidelines
- Should it cover the oil and gas industry
  - Minerals industry's big brother
  - Likely easier to sell to the nation
- How do we decide?

# What should it address?

- What is lacking in the present U.S. standards structure?
- What should be its primary goals?
- What items should it address?
  - Minerals appraiser qualifications, competency, independence, reasonableness
  - Enforcement and sanction mechanisms
  - Relationship to Resources/Reserves, technical assessments, feasibility studies
  - Report contents: maps, photographs, geology
  - Appraisal approaches, methods, considerations

# How should it relate to other standards?

- Should it reference or rely on USPAP?
- Could it adopt the IVS Extractive Industries section?
- Should it address financial reporting?
  - US GAAP or IFRS?
- What happens if the U.S. adopts the IFRSs?
  - IVS likely to replace USPAP
- Should we patiently wait a few years?

# What Body should Develop It?

- Which of the present developers is appropriate?
  - AIMA
  - MMSA-IMPS
  - CAPE
- Should a development committee be established under AIME for SME and SPE?
  - Involve AIMA, Appraisal Foundation, FASB, etc.
- What body should publish and/or maintain it?
  - Appraisal Standards Board?

# Who is Qualified to Develop It?

Possible qualification requirements among drafting team members:

- Certified Minerals Appraiser
- Certified General Appraiser
- USPAP and UAS education and experience
- Mining engineering
- Petroleum engineering
- Geology
- Mineral economics
- Accounting and finance
- Minerals law

# How should Input be Managed?

- How should input regarding goals be obtained?
  - Conferences were held for VALMIN, CIMVal and SAMVAL
  - CAPE is organizing a conference
  - Circulate a questionnaire?
- How and where should drafts be circulated?
- How should feedback be analyzed?
- How should field testing be conducted?



# What Structural Philosophy?

- Does it need ability to function independent of other standards?
- Does it need to interface seamlessly with USPAP, IVS, UAS?
- Should it draw or rely upon USPAP or IVS?
- Should it be Standards or only guidelines?
- Should it be goals or rules based?
- Should it contain instructional or educational material?

# Who will be Qualified or Competent?

- Appraiser qualification requirements?
- What experience requirement?
- Would it need a competency provision?
- Should there be testing?
  - Who would develop and maintain the test?
- How would reciprocity of certification be established internationally?

# How will Minerals Appraiser Education be Provided?

- No comprehensive minerals or petroleum appraiser education available globally
  - For GAVP-based standards
  - For market value appraisal
- What body should provide the training?
- How will educational materials be developed?
- How will instructors be trained and quality of teaching be maintained?
- Should continuing education be required?
- How can users be educated?

# How to enforce the standard?

- What body should enforce the standard?
- Should it conduct disciplinary hearings?
- How to enforce sanctions?
  - Removal of Certification or License?
  - How to sanction unlicensed/uncertified violators?

# Conclusions

- Many unanswered questions need to be addressed before developing a U.S. minerals and/or petroleum appraisal standard
- Much research and debate is needed
- Consideration of international developments is important