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

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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

  – 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  – Will Industry Guide 7 be superceded?
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
  - Standard 1: Market Value Valuations
- Non-Market Value
  - Standard 2: Non-Market Value Valuations

**STANDARDS**
- Valuation Application for Financial Reporting
- Valuation Application for Lending Purposes

**APPLICATIONS**
- 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)

**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)

**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
• 1st Edition 1995
• 3rd 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\textsuperscript{nd} 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

• 4th 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