Current Status and Direction of International Standards in the USA and Globally

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The International Valuation Standards (IVSs)

- 2005, the Seventh Edition of the IVSs contains mineral and petroleum valuation standards for the first time
  - Published by the International Valuation Standards Committee (IVSC)
- Designed for worldwide use
- Based on comprehensive Generally Accepted Valuation Principles (GAVP)
- 2007, the Eight Edition, 462 pages
Global Need for the Extractive Industries Valuation Standard

• Minerals and petroleum companies work internationally
• Minerals and petroleum appraisers work internationally
• Companies report internationally to:
  – Securities markets
  – Investors
  – Lenders
• Investors and lenders compare projects internationally
• Governments compete when leasing out or privatizing mineral properties
• 150+ countries need standards
• Required to support current value financial reporting for extractive industries companies adopting the IFRSs
The International Valuation Standards (IVSs)

• For valuation of all asset types:
  – Real Property
  – Personal Property
  – Businesses
  – Financial Interests

• IVSs now accepted in most major countries for valuations for financial reporting to stock markets, at least for real estate values
IVSs and USA’s Uniform Standards of Professional Appraisal Practice (USPAP)

- Convergence project is underway between the IVSs and USPAP
  - Based on 2006 Madison Agreement between the IVSC and the Appraisal Foundation
- USPAP not designed to support the USA’s new current value (mark-to-market) financial reporting
- USPAP contains no mention of minerals or petroleum
The International Valuation Standards (IVSs)

- Existing minerals valuation standards in some countries, such as Australia and South Africa, may not mesh correctly with the IVSs being applied throughout their economies
  - Eg: A property with minerals estate valued using SAMVAL Code, while surface land and facilities are valued using IVSs
  - Potential for jurisdictional conflicts
International Valuation Standards Council (IVSC)

- IVSC was restructured during 2007-2008, into the International Valuation Standards Council.
- Increasing valuation standards technical support required by rapid global adoption of the IFRSs
- Restructuring pushed by US Financial Accounting Standards Board
- Result:
  - Independent Standards Board
  - Professional Board for education and qualification issues
  - Structure and membership designed for a greater diversity of interests and needs
  - Better funded
IVSC’s Extractive Industries Technical Paper

• Drafted by Extractive Industries Expert Group
• Planning began September 2003
• Drafting began December 2004
• Written under directives to meet five primary purposes, including providing education and ethical conduct guidance
• In 2007 the Standards Board gutted it to only one purpose:
  – To furnish best practice guidelines supplementing the Extractive Industries standards in the IVSs
IVSC’s Extractive Industries Technical Paper

• In early 2008, the Expert Group delayed approval for public exposure by disputing fundamental principles in the IVSs for classification of valuation methods to the three valuation approaches
  – Argued that the principles are inappropriately defined for minerals and rural valuation methods
  – The dispute remains unanswered
• A call for volunteers for a new Extractive Industries Expert Group is expected shortly
International Financial Reporting Standards (IFRS)
International Financial Reporting Standards (IFRS)

- Designed for current value (mark-to-market) reporting
- USA status of IFRS adoption:
  - USA adoption by convergence of US GAAP with IFRSs more than 50% complete
  - IFRSs now allowed for financial reporting in USA by foreign listed companies
  - IFRSs may be optional in 2010 for USA companies
  - May be mandatory beginning 2014
International Financial Reporting Standards (IFRS)

- 116 countries now permit or require use of IFRSs by stock market listed companies
- IVSs are designed to support current value reporting under IFRSs
- During 2009, IASB will set its plans for drafting a comprehensive extractive industries IFRS
  - The IVSC failed to submit a finalized Extractive Industries Technical Paper to the preceding IASB research project
- Regulators may initially only allow reporting of fair value estimates of mineral assets for business combinations and impairment testing
Resource-Reserve Classification Systems

- In 2005, IASB requested convergence of minerals and petroleum resource and reserve classification definitions
- Some progress made in the 2007 Petroleum Resources Management System of the SPE/AAPG/WPC/SPEE
- The 2008 public exposure draft of the United Nations Framework Classification for Fossil Energy and Mineral Resources (UNFC) provides a useful unifying umbrella classification for minerals and petroleum
  - Numerical basis provides independence from language
  - Meets IASB’s request
Recommendations

• Minerals organizations should financially support IVSC
• Industry societies and regulators should adopt international standards by reference only
  – Allow automatic updating
  – Supplement them for local conditions and enforcement
• Organizations should support the development of educational materials and minerals appraisal courses that teach the Generally Accepted Valuation Principles in accordance with the IVSs
• Standardization internationally of certification requirements for minerals appraisers is desirable for financial reporting
Conclusions

Uniform reporting standards are spreading across the globe.

The minerals industry needs to be more involved with their development and implementation to assure that the outcomes are to its liking.