International Valuation Standards &
International Financial Reporting Standards
- An Update

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IMPS Toronto Chapter Annual Meeting, 17 April 2002
Need for Global 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
What is the International Valuation Standards Committee?

- Publishes International Valuation Standards
  - 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. $800,000/yr)
- Standards adopted directly by many countries
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)
What is the International Accounting Standards Board?

• International Accounting Standards (IAS) developed largely by volunteers for IASC, over 27 years
  – Current Value (Cost) accounting system
• May 2000, IOSCO endorsed IAS for cross-border filings (except extractive industries)
• June 2000, European Commission ruled all EU listed companies to use IAS by 2005
• December 2000, IASB replaced IASC
  – Largely to satisfy USA
  – Paid full-time Board members
  – Approx $20 million/yr funding (much from USA)
What are the International Financial Reporting Standards (IFRS)?

• March 2001, IASB replaced IAS global Harmonisation project with 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 $60+ billion collapse and other fiascos
IASB’s Extractive Industries IFRS Project

• Begun 1998 for mining and petroleum industries reporting
• Issues Paper, 412 pages, released Nov. 2000
• Responding Submissions closed June 2001
• Recommendations from Submissions review due May 2002
• Final release of standard due 2004
IASB’s Extractive Industries IFRS Project

- Steering Committee Views, Nov. 2000
  - Historic Cost Reporting Only in primary accounts
    - (Current Value Reporting Allowed for all other Industries)
  - Quantitative disclosure of Reserves Only
- Most submissions support Historic Cost limitation
  - Including JORC’s submission
- Will severely handicap stock price and fund raising
  - Companies will become takeover targets
IVSC Extractive Industries Project

• Task Force convened Feb. 2001
• To provide support to IASB’s Extractive Industries project through:
  – Submissions
  – Direct Consultation
  – Publishing an Extractive Industries section in IVS
• Tentative IVS Extractive Industries schedule
  – Begin drafting May 2002
  – Exposure Draft December 2002
  – Finalize 2003
  – Very Difficult, but Needed to support IASB’s project
• 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

• 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 Extractive Industries Addition

• Rely on existing IVS valuation framework
  – No duplication necessary
• For financial reporting and other purposes
  – Supplemental instructions specific to IFRS
• Non-Prescriptive guidance
  – Provide principles, concepts, general direction, goals
  – Expect and Require good judgment, honesty, professionalism
• Provide guidance specific to minerals & petroleum
  – Reserves & resources
  – Differences between minerals and petroleum industry definitions
  – Classifying properties into the 4 Property Types
• Provide supplementary competency requirements
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

- Shortage of professional Valuators prevented US adoption of Current Value reporting in early 1970s
- Potential global shortage of Valuators competent to perform mining and petroleum Market Valuations
  - Few minerals industry valuators 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