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

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CMMI Congress 2002, Cairns, Australia, 27-28 May 2002
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
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)
**Note: These three Guidance Notes all reference specialized trading properties**
• 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