The Tortuous History of National and Global Mineral Valuation Standards Development – Why has SME Become Involved Now?

Trevor R. Ellis, CPG, CMA, CGA, FAusIMM
2001-2008 Chairman, Extractive Industries Task Force
International Valuation Standards Committee

Mineral Property Appraiser
Ellis International Services, Inc.
Denver, Colorado, USA
www.minevaluation.com

SME-CMA-AIMA Annual Meetings, Denver, 24-27 February 2013
Institute Mineral Valuation Standards

• 1995, Australia’s AusIMM VALMIN Code first released.
  – Development Chaired by Michael Lawrence, in 2005 by Ian Goddard, now Jonathan Bell.

• 1998 and 2005 updates.

• For property and business valuation
  – But, only a few paragraphs of valuation specific guidance

• Foundation only of Technical Assessment of a property.
  – No foundation of valuation specific framework

• Designed for reporting to the Australian Stock Exchange
  – Binding on AusIMM Members for this use
• In 1999, Ellis led an American Institute of Minerals Appraisers’ (AIMA) Standards Development Committee in marking up the VALMIN Code 1998 Edition for USA use
• Tested the marked up VALMIN on some appraisal projects in the western states
  – Found that it seriously conflicted with the USA’s Uniform Standards of Professional Appraisal Practice (USPAP) and the Uniform Appraisal Standards for Federal Land Acquisitions (UASFLA)
• Abandoned the project within AIMA.
  – Versions of the markup kept being resurrected for years after.
• 2003, Canada’s CIM CIMVal Standard released
• the first set of mineral valuation standards to incorporate the three valuation Approaches
  – Cost Approach
  – Market (Sales Comparison) Approach
  – Income (Capitalisation ) Approach
• Instructions only for Market Valuation of the Real Property portion of mineral holdings
• 33 pages
• 2008, South Africa’s SAIMM releases SAMVal Code
  – Developed over 6 years from 2001
  – 15 pages
• Development leaders:
  – Alastair Macfarlane, followed by Robert Croll, then Andrew Clay
• Aims for compatibility with IVSs, VALMIN, and CIMVal
• Does not adopt a foundation of valuation principles
• The current revision project Chaired again by Alastair Macfarlane.
All three codes now under review in conjunction with the harmonization process of the International Mineral Valuation Committee (IMVAL).
• 1981, first predecessor of the IVSC was formed to develop valuation standards, based on generally accepted valuation principles, for global use.

• In July 2000, Ellis offered to assist IVSC with extractive industries issues.

• November 2000, International Accounting Standards Committee (IASC) issued its *Extractive Industries Issues Paper*, recommending only reporting of Proven and Probable (P&P) Reserves, and disallowing current value reporting for assets of these industries.
• Ellis at the beginning of 2001, formed an IVSC Extractive Industries expert group
  – to rebut the IASC *Extractive Industries Issues Paper*
  – and develop and Extractive Industries valuation standard.
• Our expert group of 5 was a small efficient global team. Only a turnover of 2 people during the 7 years.
• Our June 2001 submission report to International Accounting Standards Board (IASB) proved critical in stopping development of a constraining financial reporting standard.
• IASB established a new global team to redesign then redo the study over many years.
• As AIMA’s 2000-2002 President, Ellis received extensive forceful criticism from within the minerals and petroleum industry, particularly from within AIMA, for his global valuation standards initiative.

  – Many viewed the international to be a waste of effort
  – Wanted Ellis’ energies applied to local standards issues
  – Too much of his relationships involved affiliating with accountants working on global valuation standards matters
• Ellis’ IVSC Extractive Industries expert group completed drafting an extractive industries valuation standard in only three years.


• Republished GN-14 in 2007 edition of IVSs.
  – IVS 2007 edition is 462 pages
  – Designed for worldwide use
  – Based on comprehensive Generally Accepted Valuation Principles (GAVP)
• IASB published its Extractive Activities Discussion Paper in April 2010 after many years of research.

• But, the IASB’s long awaited, full Extractive Activities International Financial Reporting Standard (IFRS) has never been drafted.

• December 2012, IASB abandoned the Extractive Activities project in favor of a broad Intangible Asset project.
In 2003, the IVSC Standards Board requested the IVSC Extractive Industries Expert Group to develop an extractive industries best practice technical paper.

A final draft was completed in 2007.

In late 2007, Ellis led a major dispute with the IVSC Standards Board.

- His Expert Group refused to allow public exposure of the technical paper due to some disputed fundamental principles in the IVS standards framework.
- The dispute was never resolved with the Standards Board.

The Expert Group disbanded during IVSC’s 2008.

The GN-14 Extractive Industries standard was withdrawn in Feb. 2010
- for comprehensive review and rewriting.
- Modification requirements to fit the new condensed structure of IVS 2011 were too great for the IVSC editorial group.
- July 2010, the Expert Group withdrew its languishing Best Practice Technical Paper from IVSC
- March 2011, AIMA adopted it
- July 2011, IVSC publishes a much condensed IVS 2011
  - 128 pages compared to 462 pages in IVS 2007.
- Surprisingly, all of the fundamental IVS framework modifications that Ellis had argued for on behalf of his Extractive Industries Expert Group were included.
• July 2010, the Expert Group withdrew its languishing Best Practice Technical Paper from IVSC
• March 2011, AIMA adopted it
• July 2011, IVSC publishes a much condensed IVS 2011
• Surprisingly, all of the fundamental IVS framework modifications that Ellis had argued for on behalf of his Extractive Industries Expert Group were included.
• The IVSC and The Appraisal Foundation recently agreed to update the 2006 Madison Agreement on the project for Convergence of USPAP with the IVSs, to reinvigorate the project.
In late 2011, Chris Thorne, IVSC Professional Board Chairman, convened a new, 12-member IVSC Extractive Industries working group.

Alastair Macfarlane, now IMVAL Chairman, is the only member of our previous IVSC expert group to continue.

Three AIMA members are in the new group – Andy Clay (South Africa), Samuel Chan (Hong Kong), and John Gustavson (Colorado).

A Discussion Paper developed by the group was published July 2012 for comments, which closed October 2012.
IMVAL Formation

• In August 2011, the Southern African Institute of Mining and Metallurgy (SAIMM) contacted mining institutes and related societies internationally to assess interest in coordination of updating AusIMM’s VALMIN, CIM’s CIMVal, and SAIMM’s SAMVal with the standards activity of other bodies.

• Concurrently, the IVSC’s new Extractive Industries project was being restarted.
• Responses adequate for SAIMM to convene a meeting.
• April 2012, meeting held in Brisbane.
• The participants represented AusIMM, CIM, SAIMM, SME, AIMA and the Royal Institute of Chartered Surveyors (RICS)
  – Some participated by conference call
  – IVSC in observer status.
• AIMA and SME, both USA-based, decided to participate in the Brisbane meeting and subsequent harmonization process, despite not having developed their own mineral valuation standard.
• Both wanted to directly participate to influence the harmonization process towards hopefully developing a document globally useful to mining institutes, abiding by generally accepted valuation principles, that might also prove to be a useful standards document for them.
Formation of SME Valuation Standards Committee

- A new SME Valuation Standards Committee was formed with the purpose of participating in international process. The following are the initial members:

  - Trevor Ellis, Chair
  - Fredric (Fred) Pirkle
  - John Manes
  - Gerald (Jerry) Clark – now deceased
  - John Gustavson
  - William (Bill) Crowl
  - Harry Parker
  - David Abbott

- Three of us are also on the equivalent valuation standards committee of AIMA.
• In advance of the Brisbane meeting, the SME Committee agreed that for SME to adopt a mineral valuation standard, it should be based on the International Valuation Standards (IVSs) as its foundation.

• We took this position in the Brisbane meeting.

• Neither CIMVal, VALMIN, nor SAMVAL has such a foundation providing a framework of the international generally accepted valuation principles and definitions.
• A Terms of Reference document evolved from the Brisbane meeting.

• A July 2012 teleconference meeting resulted in:
  - Approval of the Terms of Reference, with inclusion of the foundation of IVSs.
  - Agreement on the name of the harmonization project committee: *International Mineral Valuation Committee (IMVAL)*
  - Approval of structural arrangements and tasks needed to advance the harmonization project.
  - The South African participants agreed to develop a first draft for an IMVAL framework code.
• Participants during the Brisbane meeting agreed to jointly develop a submission from IMVAL to the IVSC critiquing the July 2012 Extractive Industries Discussion Paper.

• Coordinating this proved too difficult for IMVAL to meet the October 2012 submission deadline.

• Both the SME and AIMA committees filed submissions, as well as some of us as individuals.
In January 2013, the first draft for an IMVAL framework code was circulated for critique by a few select individual institute representatives.

The Ellis response was limited to critiques pertaining to major issues:
- References to IVSs need to be to the current 2011 edition instead of 2005 or 2007.
- Extensive restatement of valuation principles and definitions from IVSs, blended with other sources, will inherently lead to conflicts with the IVSs.
- Purpose much too narrow, being limited to only public reporting.
- Broader guidance by asset type needed

Ellis recommended adoption and endorsement of the IVSs in total, then supplementing those.

This would:
- Remove conflicts with IVSs
- Provide ease of updating
- Remove purpose limitations
- Provide broad guidance for each asset type
Conclusions

• Though neither SME and AIMA have developed a minerals valuation standard, both are participating in the IMVAL process for harmonization of mineral valuation standards between institutes to help assure uniformity of fundamental principals and framework of application across all mineral valuation standards of significance globally and between the mineral valuation standards and the major comprehensive valuation standards such as the IVSs and USPAP.

• At this time, adoption of a version of the resultant IMVAL framework code structure is not the intent of SME and AIMA participation, though the issues involved are likely to be debated.