

United States and international valuation standards – the future

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Abstract

Considerable movement is afoot internationally to rationalize standards and regulations relating to valuations and the qualifications for valuation professionals. In July 2000 the International Valuation Standards Committee released expanded standards, and additional important improvements are planned by 2003. Possible updates to the International Accounting Standards (IAS) and potential adoption of IAS by the United States could significantly impact minerals appraisers. Standards designed specifically for mineral asset valuation are under development in Canada and the United States, with Australia's internationally respected VALMIN Code providing the benchmark. In the United States, the all-encompassing Uniform Standards of Professional Appraisal Practice (USPAP) is annually modified and continues to gain deeper acceptance, while the SEC holds fast to its 1981 rule prohibiting reporting of a quantitative estimate and value for non-reserve mineralization. Some important international trade agreements are driving actions to free the trade in professional services. In July 2000, an international workshop was held to initiate discussion on minimum qualifications for appraisers to work internationally. Pressure for uniform minimum qualifications and rules for professionals internationally will continue to build. The United States is historically among the slowest countries to implement such initiatives, with its state level licensure barriers having the potential to cause some of its professionals to be stranded in an international backwater. Structural change is needed in Australia's VALMIN Code to remove conflict with the latest International Valuation Standards. The mineral valuation standards developers of Australia, Canada and the United States should work jointly on updating VALMIN for global use.

Introduction

For minerals appraisers, this decade is shaping up to be equally as challenging and exciting as the 1990s were from a standards and regulatory standpoint within the United States and internationally.¹ In the 1990s, there were important events at the national level in the United States, Australia and Canada, these being standards and qualifications initiatives. These are continuing to evolve. The major items for this new decade though are of a global nature. They are the evolution and growing acceptance of international standards, the increasing influence of international agreements covering trade in professional services, and the potential for international agreements on minimum professional qualifications.

Because of the small number of individuals involved, it would be extremely difficult for minerals appraisers as a professional group to try to chart their own destiny. By the author's estimate, about 100 mining industry professionals worldwide are attempting to work full-time as minerals appraisers producing independent market value reports. How-

ever, by monitoring and attempting to influence developments they can make a difference, and they can even take advantage of developments, particularly if they coordinate their actions internationally.

Global initiatives

International Valuation Standards (IVS). The International Valuation Standards Committee (IVSC), headquartered in London, introduced the 2000 edition of its International Valuation Standards (IVS) at the Valuation 2000 international convention of appraisers in Las Vegas, Nevada, July 10-13, 2000 (IVSC, 2000). About nine hours of well-attended sessions were devoted to the standards and issues surrounding them.

The standards were first published in 1985 and were amended on a number of occasions. They are now recognized throughout the world and have been incorporated into the domestic Standards of many nations. IVSC is a non-governmental organization (NGO) member of the United Nations and works closely with many influential international bodies such as the World Bank, the Organization of Economic Cooperation and Development (OECD), the International Monetary Fund (IMF) and the World Trade Organization (WTO). IVSC is a sister organization to the International Accounting Standards Committee responsible for the International Accounting Standards (IAS) discussed below. IVS can be viewed as a sister document to IAS.

¹Outside the United States, the terms *valuer* or *valuator* are generally used when referring to the individual professional instead of *appraiser*. Similarly, *valuation* is generally used instead of the US term *appraisal* when referring to a formal value estimate. The terms are viewed as interchangeable in their use in this paper.

Near the end of 1999, the standards-development initiative of IVSC received a major financial boost through contributions from some of the major appraisal institutes of the world and some corporations. This boost has allowed IVSC to embark on a three-year standards development initiative.

The IVS 2000 edition is much more comprehensive than the preceding edition. At 376 pages, it is approximately three times the length. The document has greatly improved in its layout, and many added sections help guide its direction and clarity. It has now taken on much more of the philosophy and principles of the Uniform Standards of Professional Appraisal Practice (USPAP) of the United States in the three Valuation Approaches and how it divides property types (Appraisal Standards Board, 2000). IVS splits out four property types, Real Property, Personal Property, Businesses, and Financial Interests. Standard 1 covers valuations based on Market Value, while Standard 2 covers valuation bases other than Market Value. IVS now has a Code of Conduct chapter, which includes Ethics and Competence principles.

The previous edition (1997) primarily addressed valuations for inclusion in company financial statements and for loan security. The 2000 edition is designed for a wide scope of use, such as "transactions involving transfers of ownership, and for settlements in litigation and tax matters." Being a mature, very readable and workable document, it is sure to meet much higher application than previous editions. It provides very comprehensive explanations of appraisal principles and the appraisal process, and even has a 75 page glossary. These alone make the book a useful shelf reference. Importantly, versions of this edition were concurrently released in a number of languages.

IVSC views IVS as a "living" document, intending to republish on an annual basis. Important developments in IVS are scheduled by 2003. IVS 2000 instructs the appraiser on the conduct of the appraisal process and provides a Code of Conduct. The next major step is to provide standards for the content of the appraisal report. Supplementary standards or guidelines may also be developed for specific industry sectors.

The standards now represent the internationally accepted, uniform benchmark or core set of appraisal standards, also known as Generally Accepted Valuation Principles (GAVP). They are designed to be used in a complementary and mutually supportive role with national standards such as national accounting standards or Australia's VALMIN Code (AusIMM, 1998). If differences or conflicts exist between the two sets of standards, "the Valuer shall make disclosure of the situation." (IVSC, 2000, p. 16). Based on the similarity of IVS principles with USPAP principles, the author's experience in attempting to apply VALMIN in conjunction with USPAP shows that a conflict will occur when IVS and VALMIN are applied to the appraisal of only the real property portion of a mine (Ellis, 2000a). IVS 2000 requires that the business value of the mining operation be excluded, while VALMIN requires it be included. IVS states that personal property and business interests "should be analysed separately to real property." (Page 183). It also states, 'Real property is valued as a distinct "entity," i.e., as physical assets to which particular ownership rights apply.' (Page 166). IVS allows such conflicts between standards to exist and be disclosed.

This complementary approach of IVS differs from that of USPAP, which considers other standards to be *supplemental standards*. The wording in USPAP implies that USPAP is to be applied in the superior role. The author's interpretation is that to allow resolution of a conflict with USPAP in the favor of another set standards would require an appraisal contract

invoking USPAP's *Departure* provisions, allowing departure from specific, nonbinding USPAP standards only. However, if a mine is appraised as only real property under USPAP's Standard 1, the departure provisions are not adequate to allow inclusion of the business items required by VALMIN (Ellis, 2000a, 2000b).

The author briefly discussed such interface issues with lead IVSC committee members at Valuation 2000. He was told that the committee will be giving close examination over the next two or three years to how IVS interfaces with standards of disciplines such as mining. The possibility that by the 2003 edition, IVS could take a similar approach to that of USPAP was not refuted. The author emphasized to those committee members that the Canadian, Australian and US securities commissions place the valuation of mineral properties and mining companies in a class of their own, with an emphasis on standards much higher than any other industry category. The importance of compatibility between IVS and such reporting standards of the securities commissions was discussed.

Minerals appraisers conducting valuation of properties in the United States are unlikely to be required to employ IVS unless they are working for a foreign organization. This is because USPAP applies essentially the same appraisal philosophies and is generally more stringent in its standards. Outside the United States, minerals appraisers should prepare to be increasingly expected to follow IVS. This may even be the case if they are employing VALMIN or the upcoming Canadian minerals valuation standards. IAS is fast becoming the core accounting standard of the world outside the United States. In future years, one should expect its sister, IVS, to be specified for a substantial percentage of appraisal assignments, particular those required for major international institutions. The author recommends generally abiding by USPAP or IVS because they are recognized as best practice standards.

The international community of minerals appraisers should closely monitor development of IVS and be prepared to provide input to IVSC on aspects relating to, or having significant impact on appraisals in the minerals industry. The author actively participated in most of the IVSC sessions at Valuation 2000 in July. He met directly with the IVSC Chairman and other committee members, advising them on unique factors regarding mineral assets, the special treatment given to the minerals industry in national regulations, and our various standards development initiatives. At the Chairman's request, the author has agreed to make himself available to provide input for IVS development on behalf of the international minerals industry. At the same time, the author recommends that the minerals industry review its own valuation standards initiatives to determine what modifications are needed to make those standards interface compatibly with IVS.

International Accounting Standards (IAS). The International Accounting Standards Committee (IASC) was formed in 1973 and is also based in London. Its primary objective has been to achieve uniformity in accounting principles for the private sector around the world. In 1998, IASC completed the major components of the core set of standards (IAS) as identified in an agreement with the International Organization of Securities Commissions (IOSCO). A high rate of acceptance has already occurred around the world, except for the United States.

The US Securities and Exchange Commission (SEC) has shown little evidence of intention to endorse IAS, instead

retaining the US Generally Accepted Accounting Principles (USGAAP). The Financial Accounting Standards Board of the United States is studying adoption of portions of IAS, but institution of its recommendations would require SEC approval for publicly listed companies. The United States remains the only country not to institute some fundamental principles of IAS.

Of particular importance to appraisers is the fact that the United States is now one of the few remaining countries that does not permit the value of an asset to be written up to *Fair Value* to represent the current *Market Value* or *service potential* of the asset. The United States only allows the value of assets to be written down from their cost basis, generally through depreciation or amortization. In the United Kingdom most public companies have the value of their assets appraised every three years for their financial accounts, and an increasing number every two years. In Europe, reappraisal of assets for financial accounts is the major source of employment for appraisers.

The United States is under intense international pressure to adopt much of IAS, or modify USGAAP to be compatible with IAS for the benefit of harmony of accounting standards internationally. Although the United States is sometimes reluctant to adopt international standards that evolve outside its borders, there are indications that it will likely adopt much of IAS sooner rather than later. Incompatible financial reporting standards are a significant problem for multinational companies that report to US and foreign stock exchanges and for many other cross-border financial activities. Many prestigious members of the US financial community are involved in IASC. For example, Paul Volcker, the former Chairman of the US Federal Reserve Board, is Chairman of Trustees for IASC. In addressing one session at Valuation 2000, Marianne Tissier, IVSC Executive Secretary, expressed her personal expectation that the United States will begin substantial adoption of IAS around 2005.

If or when the United States does adopt the core principles of IAS, reappraisal of assets for financial accounts can be expected to be needed on a frequency similar to that mentioned above for the U.K. It is difficult to estimate how much additional work might flow from this to United States minerals appraisers. A substantial portion of the United States minerals industry is foreign owned. Also, state licensed real property appraisers have taken away a significant amount of the minerals appraisal work from minerals industry practitioners (Ellis and Abbott, 2000).

New IASC initiatives: In April 1998, IASC began two new initiatives which can be expected to impact some minerals appraisals, especially those prepared for financial reporting purposes. The first is development of an *Extractive Industries Issues Paper*. The second is development of a *Present Value Issues Paper*. Both were scheduled for release soon after the author completed this paper, the first being late November 2000, and the second being in January 2001.

An Issues Paper is the first step towards developing either a guidance note, an additional standard within IAS, or a modification to IAS. Given the close relationship of IVS to IAS, the author expects that some content developed from the two initiatives will be included in IVS.

The Extractive Industries Issues Paper will address only the upstream portion of the industry. That is, exploration through extraction of reserves and production of the first saleable product. It will not address subsequent refining or processing, marketing and distribution. Of particular importance to minerals appraisers could be Chapter 3 — *Reserve*

Estimation and Valuation, Chapter 10 — *Accounting for Reserves*, and Chapter 16 — *Research on Recognition and Disclosure of Reserves*. In the outline information reviewed by the author, he saw no mention of valuation of Resources and Exploration Information/Results.

The Present Value Issues Paper will address a wide variety of issues relating to the valuation of assets and liabilities using present value (discounting) methods. It will discuss for example, what items should be included in the estimation of future cash flows, determination of an appropriate discount rate, inclusion of risk and uncertainty, and the reflection of real options. Some early tentative conclusions from the study were posted on the IASC website (www.iasc.org.uk). One conclusion is that asset values should be determined using pre-tax cash flows and pre-tax discount rates. Another conclusion is that asset and liability values should reflect real options that would be available to all holders of the asset or liability.

The international mining industry and particularly the international community of minerals appraisers should closely monitor development of these IASC initiatives and be prepared to express opinions and provide input to IASC. These initiatives could have a major impact on the appraisal process and values expressed in financial reports. If the IASC were to exclude the valuation of resources and exploration information/results from financial reports it would prove a major backward step for our industry, similar to the effect in the United States from the US SEC's regulation on reserve reporting. The current wording of the US SEC's *Industry Guide 7* was transferred in 1992 from the 1981 Form S-18. This old regulation has had a chilling effect on the appraisal of mineral resources and exploration tracts. *Industry Guide 7* restricts the public reporting of quantitative estimates of mineralization to reserves only, and similarly restricts value estimates to those reserves (US Securities and Exchange Commission, 1992). The author has written and spoken extensively about the substantial negative impacts of this SEC regulation on the appraisal process for US mineral properties (Ellis, 2000a, 2000c, 2000d; Ellis and Abbott, 2000; Ellis, et al., 1999).

International trade agreements. Considerable work is taking place throughout the world to remove domestic and international restrictions on trade in professional services. During the 1980s and 1990s, a number of major international trade agreements were signed which include within their scopes the freeing of trade in professional services. The United States is a signatory to some of these agreements.

If these are fully implemented, they will have a significant benefit in making it easier for professionals to provide their services across international borders. Of greater potential benefit to the minerals appraiser is the domestic and international pressure these will bring on the United States to remove its state barriers to free trade by professionals across state borders formed by state licensure requirements, in particular licensure of geologists and appraisers (Ellis, 2000e).

Due to these trade agreements and from conspicuous need, professional institutes around the world are attempting to strike international agreements on mutual recognition of member qualifications. Engineering institutes are well-advanced, while geology and appraiser institutes have been less active. These mutual recognition agreements are reinforcing the role of professional institutes in enforcement of standards of best practice and codes of ethics.

In 1994, the General Agreement on Trade in Services (GATS) was brought in under the newly formed World Trade

Organization (WTO). More than 130 countries signed the agreement. It is internationally recognized as the most important multilateral trade agreement since the 1948 General Agreement on Trade and Tariffs (GATT). GATS provides a similar framework for trade in services as GATT does for trade in goods. The signatories, including the United States, have agreed that developed countries will allow free trade in professional services by 2010 and the lesser-developed countries by 2020.

The following quotes from the text of GATS provide the mechanism for establishing free trade in professional services and ensuring that licensing procedures do not form a restriction. The quoted text also provides for international recognition of qualifications without discrimination:

GATS Article VI (*Domestic Regulation*) Paragraph 4 states:

With a view to ensuring that measures relating to qualification requirements and procedures, technical standards and licensing requirements do not constitute unnecessary barriers to trade in services, the Council for Trade in Services shall, through appropriate bodies it may establish, develop any necessary disciplines. Such disciplines shall aim to ensure that such requirements are, inter alia:

- (a) based on objective and transparent criteria, such as competence and the ability to supply the service;*
- (b) not more burdensome than necessary to ensure the quality of the service;*
- (c) in the case of licensing procedures, not in themselves a restriction on the supply of the service.*

Article VII (*Recognition*) Paragraphs 1 and 3 contain the following:

- 1. For the purposes of the fulfilment, in whole or in part, of its standards or criteria for the authorization, licensing or certification of services suppliers, and subject to the requirements of paragraph 3 below, a Member may recognize the education or experience obtained, requirements met, or licenses or certifications granted in a particular country.*
- 3. A Member shall not accord recognition in a manner which would constitute a means of discrimination between countries in the application of its standards or criteria for the authorization, licensing or certification of services suppliers, or a disguised restriction on trade in services. (WTO, 1994).*

A number of other trade agreements have been signed in recent years between nations to aid in freeing trade in services, including professional services. Major agreements involving the United States are the North American Free Trade Agreement (NAFTA) signed in 1992, and agreements by the Asia-Pacific Economic Cooperation (APEC) group of countries.

NAFTA Article 1210 contains similar language on professional services to the above quotes from GATS. It also contains a comprehensive annex (Annex 1210) detailing implementation and expectations relating to professional services. It goes as far as suggesting an interview or oral examination as an alternative to a licensing examination, and encourages the development of temporary licensing (NAFTA, 1992).

Australia provides an excellent example of a developed country that has already implemented much of the professional services requirements and spirit of GATS. During past decades, Australia was following the United States pattern,

with its states requiring licensing under their statutes for professions such as lawyers, engineers, architects and real-estate appraisers. The six states, not the Australian Commonwealth government, have jurisdiction over occupations. In recent years, because of its international trade agreements (in particular an agreement with New Zealand), the states and the Commonwealth government have cooperated in removing these state level barriers to interstate and international trade in professional services. Australia is continuing to hand back to its national professional organizations the responsibility for enforcing standards, qualifications, competency and ethics rules. The Australian Council of Professions, a government and community recognized body, has the responsibility for accrediting professional organizations and assuring that its member organizations meet high expectations in these areas.

A recent manuscript by Michael Lawrence shows how well the Australian professional system operates within the minerals industry from the perspective of The Australasian Institute of Mining and Metallurgy (AusIMM). His manuscript includes considerable discussion of enforcement of AusIMM's reporting standards and Code of Ethics. Mr. Lawrence, a geologist, is the 1999 Past President of AusIMM and sits on its Ethics Committee. His manuscript is titled, *Ethics and AusIMM's Best Practice Codes* (Lawrence, 2000).

The United States implementation of these various trade agreements and their full implications for United States professionals are admittedly not clear at this early stage. In 1994, the United States filed a lengthy set of commitments and exemptions for GATS with the WTO, and supplemented this for two categories of services in 1995 and 1997 (US International Trade Commission, 1997). The quantity of exemptions is substantial. Much of the document is devoted to maintaining the rights of individual states through exemptions. Many of the professional services limitations the United States imposed on its GATS commitment are counter to the commitments it earlier made under NAFTA. Despite this, there are many indications that in the United States one should expect and work for change.

Beginning in 2000, the WTO will concentrate on the accounting profession. Based on the lessons it learns from that implementation, it will undertake meeting the 2010 deadline for the other professions. The pressures on the accounting profession flow over into the appraiser profession, because they work closely together. At Valuation 2000, a session led by IVSC addressed the need and potential mechanisms for establishing international appraiser qualifications. National and international institutes were focused upon to develop and enforce mutually accepted minimum qualification standards and codes of ethics.

The international mining community has begun working towards developing international qualifications for professionals who are responsible for reports of mineral reserves and resources under international reporting standards agreed upon in 1999. The mechanism being considered is again based on mutually accepted minimum qualification and competency requirements, and enforcement of standards and codes of ethics by national institutes, with the national institutes possibly being accredited by an international council.

To work legally or to be approved for many foreign country projects, the minerals appraiser will need to be accredited as a qualified and competent geologist, engineer or appraiser in his field of work through one of these international institute arrangements. There are some indications that the United States state level licensure system will leave United States professional institutes out in a backwater as international

reciprocity agreements are struck between institutes of other countries. The state level licensure system with examination provides state level guild protection through barriers to the free trade in professional services across state borders (Ellis, 2000e). Many state geologist and appraiser boards claim jurisdiction over mineral appraisals (Ellis, 2000c; Ellis and Abbott, 2000). In the exemptions to GATS that the United States has filed with the WTO, the states retain the right to keep these barriers (US International Trade Commission, 1997). These state level barriers are exactly the type of trade barrier that GATS was designed to remove.

When discussing reciprocity for geologists and minerals appraisers with international representatives, particularly from AusIMM, the author has been invariably asked, why should they allow us into their backyard when our state licensing does not allow them into our backyard. Michael Lawrence, 1999 President of AusIMM, takes this position when addressing the issue of global mobility of competent professionals for reserve-resource estimation and mineral valuation in his AusIMM Yearbook paper, *The Globalisation of AusIMM's VALMIN Code* (Lawrence, 1999). It seems highly unlikely that foreign institutes such as AusIMM will be interested in negotiating with state bureaucrats and vice versa. Rationalization or removal of the United States state level licensure system, to allow freedom for our own professionals to ply their services nationally, will likely be necessary if we are not to be left out of many international reciprocity agreements.

National mineral appraisal standards

Australia, Canada and the United States are the only countries having mineral appraisal standards development initiatives. Australia is the only one with a set of standards in place, this being the internationally respected VALMIN Code (AusIMM, 1998). Some countries such as Indonesia are considering adoption of the VALMIN Code.

Australia. In June 1995, the AusIMM introduced the VALMIN Code, for valuation of minerals properties. This grew out of 1989 and 1994 valuation conventions organized by The AusIMM, and a 1990 policy statement on mineral valuations by the Australian National Companies and Securities Commission (Ellis, 1995a, 1995b). The 1998 edition contains some updates and corrections to the 1995 edition. In addition to formal valuation reports, VALMIN covers technical assessment reports that have an economic basis, particularly feasibility studies. The full title of the document is, *Code and Guidelines for Technical Assessment and/or Valuation of Mineral and Petroleum Assets and Mineral and Petroleum Securities for Independent Expert Reports*. The strong support for the VALMIN Code throughout the Australian securities bodies and financial institutions is to a depth that compliance is essentially obligatory. Compliance is a requirement for reports to the Australian Stock Exchange.

The VALMIN Code is a compact 23-page document of requirements and guidelines. It is based on requirements for disclosure (transparency), independence and competence of the expert and assurance that all material information is included and conclusions are based on such. The document provides extensive guidance on what information must be gathered and evaluated and the level of detail that must be included in a valuation report. This includes instructions on for example, when a site inspection is required, the detail of capital and operating costs that must be gathered, review of employee relations, and investigation of environmental and land access matters. This guidance is down to instructions on

the labeling of maps and the information that maps must convey. The VALMIN Code places a considerable burden of responsibility on the Commissioning Entity, including the requirement for adequate disclosure of information pertaining to the subject. It does not provide specific instructions on the approaches to valuation, leaving the selection of valuation methodologies and their application up to the judgment of the appraiser (Ellis, 2000a, 2000b; Ellis and Abbott, 2000).

The VALMIN Code will continue to evolve to meet the mineral valuation needs of Australasia. Agencies and institutes in many countries are reviewing the Code to determine if it would be appropriate for them to apply a variant of it.

Canada. In Canada there have not been any specific regulations or guidelines for minerals appraisers to follow. However, steps are being taken to change this in the near future.

The 1997 fallout from the multibillion dollar Toronto Securities Exchange (TSE) based Bre-X swindle, which involved extensive salting at the Indonesian Busang gold deposit, accelerated development of a comprehensive standard for reporting on mineral properties. The result is the currently proposed Canadian Provincial Securities Administrators National Instrument 43-101. Public exposure drafts have been provided and finalization is possible by the end of 2000.

The TSE and Ontario Securities Commission (OSC) formed a Mining Standards Task Force in the wake of the Bre-X fiasco and asked it to be the major player in the development of National Instrument 43-101. The Mining Standards Task Force initially recommended bringing the process of mineral-property valuation under control as far as the securities industry is concerned. Its proposals, including its suggestions on valuation rules, were aired at a special valuation session of the Prospectors and Developers Association annual convention in Toronto in March 1998, and an Interim Report was published for comment in June 1998. Based on feedback received, the Mining Standards Task Force determined that particular methods for valuation of mineral properties should not be dictated in the regulation (Ellis and Abbott, 2000).

The Final Report of the Mining Standards Task Force recommended that the Canadian Institute of Mining, Metallurgy and Petroleum (CIM) "form an ad hoc committee of valuation practitioners to review approaches to valuation of mineral properties." The CIM Special Committee on Valuation of Mineral Properties (CIMVal) has been working on developing a draft report with recommended standards and guidelines by the end of 2000. CIMVal is hoping to deliver its final report in early 2001 (Spence and Roscoe, 2001). The author expects the draft report to put forward proposed standards heavily based on the VALMIN Code.

United States of America. In the United States, the nation's generally accepted best practice appraisal standards, the above mentioned USPAP, will continue to be updated annually (Appraisal Standards Board, 2000). Meanwhile, the SEC shows no sign yet of removing its above-mentioned *Industry Guide 7* regulation that restricts the public reporting of quantitative estimates of mineralization to reserves only and similarly restricts value estimates to those reserves (US Securities and Exchange Commission, 1992). National and international pressure is building on the SEC to adopt the internationally accepted reserve-resource reporting definitions and guidelines promoted by the international Council of Mining and Metallurgy Institutions.

In early 1999, the author began assisting the American Institute of Minerals Appraisers (AIMA) in drafting a set of

best appraisal practice guidelines designed for minerals appraisals. In this effort, the author has been affiliating with the Canadian CIMVal committee in its concurrent development of a similar set of standards and Michael Lawrence, 1999 President of AusIMM, who spearheaded the development of the AusIMM's first edition of the VALMIN Code released in 1995 and the latest 1998 edition (AusIMM, 1998).

Through this affiliation, the parties have been hoping to produce a relatively compatible set of standards while also addressing their national requirements. The author has expressed the hope to his Canadian and Australian affiliates that from these standards it will be possible to develop a single global set of guidelines.

As a first step, the author and Bernard J. Guarnera marked up a copy of the VALMIN Code with changes they proposed as desirable for United States use. However, the author quickly became concerned about developing minerals-appraisal guidelines in isolation of general appraisal profession standards and practice. This led the author into conducting considerable research into national and international appraisal standards and practice and the interface and application of VALMIN with such appraisal industry standards and the SEC's Industry Guide 7. This research stimulated the author to write this and many other papers to document his findings and philosophy, and communicate them to his Canadian and Australian colleagues (Ellis, 2000a-d, Ellis and Abbott, 2000). While doing this, the development of AIMA's draft set of guidelines has halted.

As mentioned above, the author has found that VALMIN applies an approach and philosophy to appraisal that is incompatible with USPAP and the new IVS 2000 when VALMIN is applied to the appraisal of the real property component of a mineral property or mine (Ellis, 2000a). By extension, the author expects that VALMIN will also be incompatible with IAS. Although his investigations are largely from a US-based perspective, the same incompatibility will apply internationally. The author has not investigated the application of VALMIN to the appraisal of a mining company or an operating mine as a business.

USPAP and IVS are based on generally accepted best-practice principles of valuation of the international community of appraisers/valuers. A set of mineral appraisal standards or guidelines developed for application by US-based minerals appraisers must be compatible with these so that they can be applied in conjunction in a supportive relationship. Even if the mineral-appraisal standards are applied in isolation, they should result in essentially the same conclusion of value.

To make VALMIN useable by United States based minerals appraisers requires a major structural rewrite. To make VALMIN compatible with IVS requires that the same task be undertaken, unless VALMIN is isolated to business valuation. The author recommends that a cooperative effort be undertaken by AIMA, AusIMM and CIMVal in consultation with IVSC to develop a new generation of VALMIN standards suitable for global application. In doing this, it may be best to reference IVS and USPAP for the overarching best practice appraisal framework, with VALMIN providing the specific instructions for the mining industry.

Conclusions

The decade of the 1990s was an exciting and challenging time of domestic and international developments for minerals appraisers, with standards and qualifications initiatives being initiated and implemented. The new decade that has been entered is already proving to be equally as exciting and

challenging, with globally encompassing standards and qualifications initiatives involved. These initiatives encompass all industries and professions globally.

The mining industry forms an important but very small portion of the global economy. Minerals appraisers form only a minute portion of the international community of appraisers (by the author's estimate less than 0.1%). The standards and qualifications initiatives, domestically and internationally, must work in concert with what is happening in the rest of the economy. In this way one can take advantage of national and global change, rather than conflicting with it and having it imposed on us.

The International Valuation Standards (IVS) is a sister initiative to the International Accounting Standards (IAS). IVS and IAS have already achieved a high level of international acceptance, although the United States has not yet embraced IAS. The 2000 edition of IVS is much expanded in content and scope, becoming an all-encompassing set of valuation standards. IVS now clearly presents essentially the same philosophy and structural approach to the appraisal process as the US Uniform Standards of Professional Appraisal Practice (USPAP). It provides generally accepted best-practice principles for valuation professionals worldwide. For the United States, USPAP provides a slightly stricter set of standards, although IVS could provide useful supplementary guidance. By the 2003 edition, the International Valuation Standards Committee (IVSC) intends that IVS will also comprehensively address the content requirements of valuation reports.

The international community of minerals appraisers should closely monitor development of IVS and be prepared to provide input to IVSC on aspects relating to, or having significant impact on appraisals in the minerals industry. At the IVSC Chairman's request, the author has agreed to make himself available to provide input on behalf of the international minerals industry. At the same time, the author recommends that the minerals industry review its own valuation standards initiatives and make any modifications necessary to provide compatible interfacing with IVS.

The United States is now one of only a few countries that does not permit the value of an asset to be written up in public accounts to *Fair Value* to represent the current *Market Value* or *service potential* of the asset. The United States is under intense international pressure to adopt IAS or harmonize its accounting system accordingly. If or when the United States does adopt the core principles of IAS, reappraisal of assets for financial accounts can be expected to be needed on a frequency of about every two to three years. Some additional work should flow from this to United States minerals appraisers.

IASC will be publishing two Issues Papers near the end of 2000 on topics of importance to the minerals industry and particularly mineral valuations prepared for financial reports. These are an *Extractive Industries Issues Paper* and a *Present Value Issues Paper*. Outgrowths from the conclusions drawn could be included in IAS and flow over to IVS. The international mining industry and particularly the international community of minerals appraisers should closely monitor development of these IASC initiatives and be prepared to express opinions and provide input to IASC.

Considerable work is taking place throughout the world to remove domestic and international restrictions on trade in professional services. During the 1980s and 1990s a number of major international trade agreements were signed that include within their scopes the freeing of trade in professional services. Professional institutes around the world are attempt-

ing to strike international agreements on mutual recognition of member qualifications. These mutual recognition agreements are reinforcing the role of professional institutes in enforcement of standards of best practice and codes of ethics. Rationalization or removal of the United States' state level licensure system, to allow freedom for our own professionals to ply their services nationally, will likely be necessary if we are not to be left out of many international reciprocity agreements.

In Canada the Final Report of the Mining Standards Task Force delivered in January 1999 recommended that the Canadian Institute of Mining, Metallurgy and Petroleum (CIM) "form an ad hoc committee of valuation practitioners to review approaches to valuation of mineral properties." The CIM Special Committee on Valuation of Mineral Properties (CIMVal) hopes to release a draft report with recommended standards and guidelines by the end of 2000 and its final report in early 2001. The author expects the draft report to put forward proposed standards and qualifications heavily based on the Australasian Institute of Mining and Metallurgy's highly regarded VALMIN Code.

In the United States in early 1999, the author began assisting the American Institute of Minerals Appraisers (AIMA) in drafting a set of best appraisal practice guidelines designed for minerals appraisals, modified from VALMIN. Through research, the author has found that VALMIN applies an approach and philosophy to valuation that is incompatible with USPAP and the new IVS 2000 when VALMIN is applied to the appraisal of the real property component of a mineral property or mine. By extension, the author expects that VALMIN will also be incompatible with IAS. A set of mineral appraisal standards or guidelines developed for application by US-based minerals appraisers must be compatible with USPAP and IVS so that they can be applied in conjunction in a supportive relationship. Similarly, if VALMIN is to survive as a set of standards it must be made compatible with IVS.

To make VALMIN compatible with IVS requires a major structural rewrite unless VALMIN is isolated to business valuation. The author recommends that a cooperative effort be undertaken by AIMA, AusIMM and CIMVal in consultation with IVSC to develop a new generation of VALMIN standards suitable for global application. It may be best to have the resultant document reference IVS and USPAP for the overarching best practice appraisal framework, while the document provides the specific instructions for the mining industry.

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