

Reporting Standards – The USA Experience

Achieving True Globalisation – Problems and Solutions

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ABSTRACT

The United States' reporting standard for the mining industry for securities purposes is contained in the Security and Exchange Commission's *Industry Guide 7*. It defines *proven* and *probable* Reserves using its own definitions, and prohibits the disclosure of quantitative estimates, for all mineralisation other than those two Reserve categories (though disclosure of Measured and Indicated Resources as quantitative *mineralised material* estimates is now informally allowed). Similarly, it restricts disclosure of value estimates to Reserves only, which SEC policy generally requires to be on an historic cost accounting basis. The SEC does not maintain a formal Competent or Qualified Person policy.

In March 1999, the US-based Society of Mining, Metallurgy and Exploration (SME) released an update of its 1991 guidelines for definitions to be used in reporting of Mineral Resources, Reserves and Exploration Information, closely abiding by the 1997 CMMI recommendations. However, without SEC recognition, reporting under the SME and CMMI definitions is effectively barred for US companies.

The SEC intends to adopt the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB). This will occur within just a few years, when the convergence project for development of the IFRS has reached a satisfactory point. The US is the largest financial supporter and participator in IASB. The Extractive Industries Standard of the IFRS will likely terminate *Industry Guide 7*. However, the effect of this international replacement will likely be equally restrictive. This could possibly neutralise the benefit of a CMMI-based global reporting standard.

SME, the US society encompassing the widest range of mining industry professionals, does not have a Code of Ethics. It has no mechanism for requiring members to abide by a professional standard. SME is presently looking into possible solutions for this deficiency. US-based professional societies that do have a binding Code of Ethics, generally cater to a single profession, and are not just mining industry related. The American Institute of Professional Geologists (AIPG) and the American Institute of Minerals Appraisers (AIMA) are examples. The SME is considering creating a subsidiary body with an enforceable Code of Ethics.

To support a CMMI-based global reporting standard, competent persons will need to work across international borders. A standardised mechanism for qualifying and registering competent persons will be needed. National rules and laws must allow competent persons to easily enter countries to perform their work.

State issued licenses are increasingly required for much of the work performed in the US mining industry by engineers, geologists and minerals appraisers (valuers). Such licenses are not required by the SEC for Reserve reporting in the US, may not be required for valuation of mineral properties under certain circumstances, and except for real property valuer licenses, they generally do not have a binding code of conduct. However, state licensing of professionals forms a substantial and increasing barrier to interstate trade in professional services, and can be a prohibitive barrier to professionals from outside the US. Any rationalisation of this confusing patchwork of regulations confronting US minerals industry practitioners will only occur as part of larger, national change, hopefully aimed at compliance with international standards and protocols.

The US does not have a valuation standard aimed specifically at the mining industry. The *Uniform Standards of Professional Appraisal Practice*, the national valuation standards, often must be applied to mineral property valuation, but contains no specific instructions for minerals. The author has campaigned against development of minerals valuation standards proposed by US minerals institutes. Instead he encourages the mining industry worldwide to place its support behind the initiative of the International Valuation Standards Committee (IVSC) to include an extractive industries section in its *International Valuation Standards* (IVS). This should provide a global set of valuation standards for the mining and petroleum industry within two years. This addition to IVS will provide essential valuation standards reference support for the extractive industries financial reporting standard of the International Accounting Standards Board.

The IVS has achieved a high level of acceptance in the developed and lesser developed countries of the world. It provides a comprehensive framework of Generally Accepted Valuation Principles for the valuation profession internationally, for valuation of all property or asset types. IVSC is effectively a sister organisation to IASB. The IASB's International Financial Reporting Standards (IFRS), previously known as the International Accounting Standards (IAS), reference and quote IVS in some instructions for determination of fair value. IVSC is a Non-Governmental Organisation (NGO) member of the United Nations and maintains liaison with many important international economic, accounting and financial agencies, such as the OECD, IMF and WTO.

INTRODUCTION

In the US the public reporting of Reserves and the value of them is controlled by *Industry Guide 7* (SEC, 1992), the primary mining industry reporting regulation of the US Securities and Exchange Commission (SEC). This is a restrictive, antiquated document that does not abide by the definitions of the Council of Mining and Metallurgical Institutions (CMMI) which are largely accepted globally by the mining industry in recent years for Reserve-Resource reporting.

The planned adoption by the US of the International Financial Reporting Standards (IFRS), under development by the International Accounting Standards Board (IASB), will likely make *Industry Guide 7* obsolete. However, present indications suggest that the extractive industries

(mining and petroleum) accounting standard of the IFRS may be drafted with similar restrictions on reporting to *Industry Guide 7*. Since the standard is destined to be implemented globally, it has potentially daunting global implications for the mining industry.

The fact that the US-based Society of Mining, Metallurgy and Exploration (SME) does not have an enforceable Code of Ethics to support its competent person provisions, is a handicap in the application of its Reserve-Resource reporting guidelines, mainly related to reporting purposes outside the US. SME is seeking a way to provide an enforceable Code of Ethics for those members who wish to be bound by it. However, within the US, *Industry Guide 7* reigns supreme for public reporting, and since it has no competent person requirement, minimises the relevancy of an enforceable code of ethics.

The work of mining industry professionals, particularly independent consultants, is increasingly handicapped by interstate barriers to trade in services formed by licensing of professionals on a state-by-state basis. Negotiation of reciprocity agreements internationally by US bodies seems somewhat irrelevant given this background, since the regulatory boards of each state for each profession would need to have its statutes or regulations modified to accept the agreement.

Valuation of mineral properties for public reporting purposes is rarely conducted in the US for reporting within the US.¹ This is because the combination of *Industry Guide 7* and the US Generally Accepted Accounting Principles (US GAAP) requires that value reporting for mineral properties be based on historic cost accounting only. Thus the vast majority of formal independent valuations of mineral properties are conducted for purposes other than public reporting. Much of this work must abide by the *Uniform Standards for Professional Appraisal Practice* (USPAP, 2002), the US national valuation standards.

The author is opposed to the development of a US national minerals valuation standard, as is currently being attempted by one minerals industry institute. He also discourages the development of national valuation standards internationally by individual countries. Instead he supports the planned expansion of the *International Valuation Standards* (IVSC, 2001a) of the International Valuation Standards Committee (IVSC) to incorporate a minerals and petroleum section. The rapid development of this section is critical if the current negative direction for the planned development of the extractive industries IFRS by the International Accounting Standards Board (IASB), is to be changed.

US RESERVE REPORTING STANDARD

The SEC rules which primarily control the public reporting of Reserves and the value thereof, were first issued in March 1981 when the SEC introduced *Form S-18* for reporting by mining companies. In 1992, the SEC transferred the definitions and disclosure requirements of *Form S-18* to *Industry Guide 7*, which is still in force (SEC, 1992).

1. In the US, the term *appraisal* is used for a *valuation* assignment and a formal *valuation* report. A *valuation* under US usage is typically a less stringent undertaking than an *appraisal*, especially when Real Property is involved. Similarly, a professional *valuer* or *valuator* is called an *appraiser* in the US. For the international audience, valuation and valuer are generally substituted for the US equivalent terms throughout this paper.

Reporting limitations under SEC's Industry Guide 7

Industry Guide 7 is focused on investor protection, as are SEC rules in general. It defines proven and probable Reserves using its own definitions, not the internationally accepted definitions of the CMMI. It then prohibits the disclosure of quantitative estimates, such as tonnage and grade, for all mineralisation other than those two Reserve categories, except in rare circumstances. Similarly, it restricts disclosure of value estimates to Reserves only (SEC, 1992; Abbott, 1985; Ellis and Abbott, 2000).

The policy is designed to prevent private investors from confusing Resources and other mineralisation, with Reserves that can be mined economically and legally (Abbott, 1997; Ellis, Abbott and Sandri, 1999). It is also intended to reduce the speculation associated with initial, in situ estimates of Resources, which are invariably greater than the Reserves, if any Reserves are delineated (Noble, 1993).

In only rare cases have other disclosure pressures allowed these rules to be overridden for US-based companies. The dissatisfaction with these *Industry Guide 7* rules is quite widespread among US mining industry management. In recent years some Canadian listed companies that are also listed on a US exchange have been reporting Resource estimates in their quarterly and annual reports to stockholders. However, there now appears to be a move by the SEC to find ways to prevent this. It is making an example out of the Australian-based major international mining company, BHP-Billiton, for its listing on the New York Stock Exchange, by preventing it from disclosing Resources and preventing it from even referencing the Australasian JORC Code (Mullins, et al, 2002; JORC, 1999).

Despite this regulation, in recent years an occasional company listed on a US exchange, such as Newmont, has begun publishing estimates of tonnage and grade of non-Reserve mineralisation, using terms such as "Measured and Indicated Mineralization." The SEC has not acted to stop this apparent violation. In February 2001, Roger Baer, an SEC Mining Engineer, gave a presentation explaining the SEC position on mining industry public reporting, in the Valuation Sessions of the SME 2001 Annual Meeting. He explained that the SEC is allowing an "Administrative Exception" to *Industry Guide 7*. Quantity and grade estimates for the sum of Measured and Indicated Resources meeting SME and CMMI definitions, can be reported as "Mineralized Material," but with no allowance for disclosure of Inferred Resources (Baer, 2001).

Prior to this, US-listed mining companies frequently refused to provide Resource estimates to the author and other minerals valuers for valuation work involving their mine and mineral property (Ellis, 2000a, 2000b). Signing of a confidentiality agreement often did not mitigate the concerns. This was apparently due to worries about Resource estimate information from the valuer's report getting into the public domain in breach of *Industry Guide 7*. Mineral Resources often carry a significant portion of the value of a mineral property, even for a mine. The restriction also resulted in Mineral Resource information not being available for sold properties for use in Sales Comparison analysis. In these situations, the author found himself having to make his own quantitative estimates from what information and impressions he could glean (Ellis, 2000a, 2000b).

The author does not expect to see much increase in the amount of information available due to this Administrative Exception. He does not expect a large percentage of reporting companies to

take advantage of the exception, especially given that not many industry professionals, let alone private investors, will understand the specific meaning of the information reported in this new foggy category. Also, by not allowing Inferred Resources to be reported, the SEC is preventing disclosure to investors of important information about the long term potential of mineral properties and mineral companies.

In the past year or two there appears to have been an important shift in SEC decisions towards tightening of Reserve reporting requirements. For classification as a Reserve at an operating mine, mineralisation must be shown as being currently economically mineable by a preliminary feasibility study. The requirement of currently economically mineable is being applied more tightly, using current price levels, rather than the “reasonable expectations” or “reasonably justified” expectations of being economically mineable “at the time of reporting,” that the author understands as being applied under the CMMI-based standards such as the JORC Code and CIM Standard (CIM, 2000). Where the mineralisation is not associated with an operating mine, the mineralisation must be shown as being currently economically mineable by a more comprehensive feasibility study. This requirement for a comprehensive feasibility study is a step up from the preliminary feasibility study generally expected under the CMMI-based standards. In discussing the application of the economic viability test, the SEC’s Baer states:

“...the mine must be economically and legally viable at the time the reserve is reported. So for undeveloped and developed mines, current price levels are used to define reserves. As a consequence of this policy, reserves at operating mines commonly decrease if commodity price levels fall.” (Baer, 2001).

SME Reserve-Resource reporting guidelines

In March 1999, the SME released an update of its 1991 guidelines for definitions to be used in reporting of Mineral Resources, Reserves and Exploration Information (SME, 1999, 1991). These closely follow the 1997 CMMI recommendations, which were in turn derived from the Australasian JORC initiatives. To date, the SEC has stuck by its antiquated 1981 Reserve definitions and prohibitions. This has effectively barred public reporting in the US under the SME and CMMI definitions (Ellis and Abbott, 2000).

The author has detected no sign of potential change in the SEC’s attitude towards reporting under SME or other CMMI-based definitions. However, as discussed below, the planned introduction of the IASB’s IFRS has the potential to change that.

Valuation reporting

Industry Guide 7 contains the constraining statement that value should only be assigned to Reserves. It is rare that a minerals industry company files a market valuation report for Reserves with the SEC, and few of those that are filed are found acceptable (Baer, 2001). Most of the US-based minerals industry companies are listed on a Canadian exchange instead of a US exchange. Accounting for public reporting of US companies is on an historic cost basis, which includes accounting for the value of Reserves. Therefore, the market value or fair value of Reserves could only be relevant in a SEC filing regarding a merger or acquisition involving a US-listed company.

Unfortunately a considerable number of US minerals valuers sincerely believe the SEC's notion, expressed in its *Industry Guide 7*, that only Reserves should be assigned value. This belief does not match the realities of transactions taking place on a regular basis in the market place (Ellis, 2000a). Those show that the value of Resources and exploration potential often reach many tens of millions of dollars, sometimes exceeding the value of any associated Reserves (Lawrence, R, 2001; Ellis, 2000b).

These unintended consequences of the SEC's actions demonstrate that rules designed to control reporting for securities purposes will also impact on mineral valuations performed for a wide variety of purposes unrelated to securities reporting, unless great care is taken in their drafting and keeping them up-to-date (Ellis, 2000c, 2001b).

US ADOPTION OF THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The International Financial Reporting Standards (IFRS) currently under development by the International Accounting Standards Board (IASB) are designed to provide the world with a uniform accounting system for public financial reporting across all nations. The US is preparing to adopt the IFRS a few years from now when the standards reach a comprehensive state of satisfactory completeness. When this occurs, the planned extractive industries financial reporting standard is expected to be part of the IFRS package adopted. However, it could be that the extractive industries standard will not provide for CMMI-based quantitative reporting for the three Mineral Resource categories. It may also prevent the disclosure of value estimates for exploration properties and Resources that are not Reserves. That is, the extractive industries financial reporting standard may not represent much of an improvement for reporting by US mining industry companies, and it could possibly represent a sizeable step backwards for reporting by, for example, Australian mining industry companies.

History of US involvement in International Accounting Standards development

The International Accounting Standards Committee (IASC), the predecessor of IASB, was formed in 1973 and headquartered in London. Its objective was "*harmonising the accounting principles which are used by businesses and other organisations for financial reporting around the world.*" Harmonisation would allow companies to provide financial reports to securities exchanges in a number of countries without modification due to variation in accounting rules. Harmonisation meant that countries could adopt the IAS developed by IASC, or modify their existing standards to include the same accounting principles.

By the time IASB took over the IASC's role at the end of 2000, its membership consisted of 153 professional accounting bodies in 112 countries. Though much of its management and standards development work was done on a volunteer basis, it was quite successful and well respected internationally. IASC developed close relationships with all major international financial and economic bodies.

Although the US has been among the slowest countries in progressing with harmonisation, largely due to the scale and complexity of its economy, it has been one of the strongest supporters of IASC and its goals. From 1983, the SEC was having formal meetings with IASC.

In 1988 the US Financial Accounting Standards Board (FASB) joined the IASC's consultative group in a supporting role. The US Congress passed the *National Capital Markets Efficiency Act* in 1996, which contains paragraphs encouraging rapid establishment of high quality international accounting standards and requiring the SEC to report to it on progress made towards allowing unadjusted IAS-based financial disclosures (Section 509). Many high level US regulatory personnel on their retirement took positions in IASC and now IASB. An example is Paul Volcker, former Chairman, Board of Governors, US Federal Reserve Bank, who is now Chairman of the IASC Foundation, and another is the former Chairman of the SEC, Arthur Levitts.

In 1987, IASC published its first bound volume of International Accounting Standards (IAS). In the same year, the International Organisation of Securities Commissions (IOSCO) joined the IASC's consultative group in a supporting role. In 1998, IASC completed the major components of the core set of standards, as identified in an agreement with IOSCO in July 1995. The core standards provide a comprehensive basis of accounting, covering all the major areas of importance to general businesses. They will result in transparency and comparability and they provide for full disclosure.

In May 2000, IOSCO recommended that its members endorse the use of IAS by companies with cross-border offerings and listings. However, the extractive industries (mining and petroleum) and some other economic sectors were excluded from this approval, because they have specialised reporting practices falling outside of the scope of the 30 standards approved by IOSCO resulting from the IAS core standards work program.

Many countries have already adopted IAS as their own, some with minor changes. Some others, such as Australia, have been modifying their standards to harmonise with IAS. In June 2000, the European Commission announced that all European Union companies listed on the securities markets should prepare their accounts using IAS by 2005, and is considering advancing that deadline. Although the US, Canada and Japan are the slowest to adopt IAS, that adoption is accelerating rapidly. The US and Canada have been working under a policy of first attempting to rapidly converge their Generally Accepted Accounting Principles (GAAP) systems of accounting to effectively merge into one system, then modifying GAAP to harmonise with IAS. The timescale for completion appears to remain a few years. The Canadian Securities Administrators (CSA), based on responses it received to a March 2001 discussion paper, is giving serious consideration to abandoning the GAAP convergence project with the US, to accelerate adoption of the IAS accounting principles (CSA, 2001). South Africa has modified its GAAP system to allow South African companies to provide IAS compliant reports, but foreign IAS reports are not yet accepted without adjustment to GAAP.

US involvement in IFRS development

In December 2000 to March 2001, IASC physically underwent a major restructuring, and the IASC organisation was dissolved and replaced by IASB. A determination had been made by IASC in cooperation with governments and the international financial community, that the time had come to transition the primary focus from IAS development to global implementation. The SEC and FASB heavily influenced the determination and its outcome (Volcker, 2002). The volunteer board has been replaced by a paid board of primarily full time members, with heavy US and European representation. This new organisation, IASB, relies largely on government

rather than private funding. The US will be funding a substantial portion of the IASB's expanded annual budget of approximately £15 million (approximately US\$20 million).

The IASB's statement of objectives is:

*The Board is committed to developing, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require transparent and comparable information in general purpose financial statements. In addition, the Board cooperates with national accounting standard setters to achieve **convergence** in accounting standards around the world. (Emphasis added)*

The goal of "convergence" in replacing that of "harmonisation" of accounting standards around the world has resulted in the IASB starting the development of a new set of standards. Sir David Tweedie, Chairman, IASB, in describing the goal for the new International Financial Reporting Standards (IFRS), said, 'we plan to build a set of financial reporting standards that are the "gold standard"' (Tweedie, 2002). The ultimate goal is to have only one high quality set of accounting standards used globally in private sector financial reporting, these being the IFRS.

The convergence process in developing the IFRS is being conducted by representatives of the financially advanced countries of the world working directly together, these being from France, Germany, United Kingdom, Japan, Canada, United States and Australasia. The process involves reviewing existing national standards and IAS rule by rule to select the best rules for inclusion in IFRS. The spectacular imploding and bankruptcy in late 2001 of the US\$60+ billion Enron Corporation, and a number of other recent multi-billion dollar financial reporting disasters in the US and Europe have added emphasis to the importance of the convergence process. The extractive industries financial reporting standard when completed will be one of the new IFRS.

Global implications for CMMI-based standards

In November 2000, the Extractive Industries Steering Committee of the IASC released a 412 page *Issues Paper* seeking input of responses by 30 June 2001 (IASC, 2001). Based on the responses received, the committee is scheduled to develop an extractive industries financial reporting standard(s) for the mining and petroleum industries for inclusion in the IFRS. The responses received are being analysed by a South African committee, with its report to the IASB due in May 2002. Drafting of the extractive industries financial reporting standard is scheduled to begin soon thereafter. The finalised standard is tentatively scheduled for release in 2004.

The tentative views expressed by the IASC steering committee in the *Issues Paper* have a *deja vu* resemblance to the SEC's perspective expressed in *Industry Guide 7*. The SEC is understood to have had some influence in the development of those views. The question of whether to allow quantitative reporting of Resources that are not Reserves, as supplemental information, appears to have only barely remained on the table for discussion.

In developing its tentative recommendations, the committee expresses conflict and reservation over the concept of reporting quantitative Reserves estimates within the mining industry, due to the lack of standardisation within industry as to the economic inputs used in estimating a Reserve under the Australasian JORC Code (JORC, 1999). It also has difficulty with the difference in philosophy for reserve calculations between the mining industry's deterministic JORC

definitions and the petroleum industry's probabilistic definitions developed by the World Petroleum Congress (WPC) and Society of Petroleum Engineers (SPE). The possibility of the IASB taking control of reserve definitions for its reporting purposes is raised.

The international mining community, including the JORC Committee, made little effort to counter such specific concerns expressed by the steering committee (JORC, 2001). Submissions by some accounting groups supported the steering committee's concerns and tentative views. The 35 page submission of the International Valuation Standards Committee (IVSC), developed by its Extractive Industries Task Force, stands out in providing comprehensive discussion of the steering committee's specific concerns, while arguing for quantitative and qualitative disclosure for Mineral Reserves and Resources in supplemental statements to the financial accounts, using CMMI-based standards including Competent Person provisions (IVSC, 2001b).

If the finalised extractive industries financial reporting standard were to incorporate the tentative views of the steering committee as expressed in the *Issues Paper*, and then be implemented worldwide in the IFRS, the mining industry's existing CMMI-based standards would lose much of their purpose and effectiveness. In contrast, if the recommendations in the IVSC's submission were to be fully adopted in the extractive industries financial reporting standard and implemented worldwide in the IFRS, Reserve-Resource reporting using CMMI-based standards including Competent Person provisions, would soon be required worldwide, including in the US.

US CODES OF ETHICS AND COMPETENT PERSONS

The US has no national mining institute of a similar nature to the Australasian Institute of Mining and Metallurgy (AusIMM), covering all industry professions nationally at all stages within a professional's career, and having an enforceable Code of Ethics. SME, the US society encompassing the widest range of mining industry professions, does not have a code of ethics. It has no mechanism for requiring members to abide by a professional standard. SME is presently looking into possible solutions for this deficiency. One possible solution being considered is to create a subsidiary body with an enforceable code of ethics for members who wish to be bound by it in order to undertake independent competent/qualified persons roles. The main purpose of this at present would be for members who are developing reports for outside the US, such as for submission to the Canadian exchanges.

US-based professional societies that do presently have a binding code of ethics, generally cater to a single profession, and are not just mining industry related. The American Institute of Professional Geologists (AIPG) and the American Institute of Minerals Appraisers (AIMA) are examples. The Mining and Metallurgical Society of America (MMSA), is a national mining industry society catering to the full range of mining industry professions and has a code of ethics, but membership is generally limited to senior level personnel in the latter part of their careers. Some institutes in the US have a record of not enforcing their code of ethics, possibly due to concerns about the cost of litigation in the highly litigious US society. The cost of legal services has proved a significant burden for the AIPG in enforcing its code of ethics.

Some State Boards of professions bind their licensed professionals, such as geologists, with a code of ethics. Minerals valuers who are required to abide by USPAP due to state licensing or

institute requirements, are bound by the code of ethics and competency provisions contained within USPAP.

The author has found from personal experience that with the proliferation of codes of ethics by which one is meant to abide, some conflicts in instructions can occur. The author is subject to at least six codes of ethics. Also, the combination provide tighter restrictions on ones practice than a single code. In one of his papers (Ellis, 2000d), the author discusses his personal experience in the application of various codes of ethics to an ethically difficult situation.

STATE LICENSURE BARRIERS TO PROFESSIONAL PRACTICE

To support a CMMI-based global reporting standard, competent persons will need to work across international borders. A standardised mechanism for qualifying and registering competent persons will be needed. National rules and laws must allow competent persons to easily enter countries to perform their work. However, it appears to the author that the US is unable to provide reciprocity in this regard due to its state licensure barriers to trade in professional services (Ellis, 2000e).

State issued professional licenses are increasingly required for much of the work performed in the US mining industry by engineers, geologists and minerals valuers, particularly those working as independent consultants. The great majority of the land in the US is covered by licensing for the work conducted in those three professions. While such licenses are not required by the SEC for Reserve reporting, work performed in developing such a report could fall under a state licensing requirement. The author has found that in many states the work conducted by minerals valuers is covered by the geologist and real property appraiser (valuer) licensing statutes.

All 50 states have engineer licensure and at the time of writing, 30 have geologist licensure, with more considering it. Such state regulation of professions continues to be instituted based on the concept that it is “for the welfare of the public.” The composition and professional coverage of statutes for an individual profession vary from state to state. A geologist may be able to work legally on a geological formation without a license in one state, but not be able to legally follow the extension of the formation into the adjoining state. Most independent professionals in the mining industry ignore such complexities, placing those who wish to be totally honest at a competitive disadvantage.

Being a geologist, and not an engineer, the author’s experience is in the functioning of the licensure of geologists. Most state geologist licensure statutes exempt employees of mining companies, and many such statutes exempt consultants working on minerals exploration. However, from the author’s experience in receiving interpretations from various State Boards of Geologists, essentially all State Boards could interpret their statutes such that minerals valuers fall under their jurisdiction. At least one State Board interprets its statute so strictly that its Executive Officer told the author that even if he did not set foot in the state, if he conducted any form of geological evaluation of the mineral property in question, he would be breaching the statute.

At the time of writing, 18 of the 30 states with geologist licensure had some provision for temporary licensing for out-of-state licensed geologists. However, the author’s experience with

the temporary system for geologist licensing is that it is essentially unworkable for the minerals valuer working on assignments across many states. The author has been licensed as a Professional Geologist in two US States for almost a decade. He found little available temporary reciprocity, because his licenses were obtained without sitting a state licensing exam.

The author recently obtained a third geologists license by taking the exams of the National Association of State Boards of Geology (ASBOG). These exams are best sat within a few years of graduation from a geology degree program, rather than three decades later as in the author's case, by which time most geologists who are still practicing, have become highly specialised. The author found that this additional license does not help much since many states with a temporary license provision have recognised only a short list of licensing states. Also, some states require licensing by speciality, such as engineering geology or hydrogeology (Schmitz, Turek and Philley, 2002).

From the above discussion it is apparent that state licensing in the US creates substantial barriers to free trade in professional services across state boundaries. It is because of the economic inefficiencies incurred by such restrictions to free trade in services, and resultant handicaps to international trade negotiations, that the Australian states abolished most of their state licensing of professionals during the 1990s, handing back to its national professional organisations the responsibility for enforcing standards, qualifications, competency and ethics rules (Ellis, 2000e). However, the US states claim the right to enforce educational requirements for professions. They also claim that effective enforcement of professional standards and qualifications must be through the force of law at the state level.

These state level barriers to entry are such that it is generally essentially impossible for a foreign professional to come to the US and legally work as an independent consultant for his client. US geologists and other professionals cannot expect to continue to practice on temporary assignments in other countries if US states won't allow reasonable access for similarly qualified, competent professionals to practice temporarily in and throughout the US (Lawrence, 1999). Any rationalisation of the confusing patchwork of state licensing regulations confronting US minerals industry practitioners will only occur as part of larger, national change, hopefully aimed at compliance with international standards and protocols.

US VALUATION STANDARDS

The US does not have a valuation standard specifically designed for mineral properties or mineral businesses. The AIMA set aside a 1999 initiative to modify The AusIMM's VALMIN Code (VALMIN Code, 1998) to its needs, whilst the author researched the content, application and interface of it with US and international valuation standards. This research stimulated the author to write many papers to document his findings and valuation philosophy, (Ellis, 2000a-d, 2001a-c; Ellis and Abbott, 2000). The MMSA in March 2002 issued a draft for a US mineral valuation standard, again based on direct modification of the VALMIN Code. The author expects that this initiative will again be unsuccessful, due to a number of important reasons that he has discussed in his papers.

The *Uniform Standards of Professional Appraisal Practice* (USPAP), the national valuation standards, often must be applied to mineral property valuation, but contains no specific

instructions for minerals. The major national valuation institutes of the US require their members to abide by USPAP. As yet, the AIMA, which Certifies minerals valuers, has not made USPAP a requirement for its members, although it does recommend its use. All Federally Chartered Financial Institutions (eg, interstate banks) and Federal agencies use USPAP as their minimum valuation standard. All 50 states have adopted USPAP for their real property valuation standards and have set generally uniform licensure rules and procedures.

Minerals are an integral part of Real Estate, and Mineral Rights are Real Property under US law.² Therefore, the valuation of mineral deposits falls under Standards 1 and 2 of USPAP, the Real Property valuation Standards. However, if one is valuing a mine as a Business, the Standards for valuation of a Business, Standards 9 and 10, may be a more appropriate starting point.

THE IVSC's INTERNATIONAL VALUATION STANDARDS

The author has campaigned against development of minerals valuation standards proposed by US minerals institutes. Development of standards at a national level will lead to inconsistencies between national standards at the global level. Instead he encourages the mining industry worldwide to place its support behind the initiative of the International Valuation Standards Committee (IVSC) to include an extractive industries (mining and petroleum) section in its *International Valuation Standards (IVS)*. This should provide a global set of valuation standards for the mining and petroleum industry within two years. This addition to IVS will also provide essential standards reference support for the extractive industries financial reporting standard of the IASB.

IVSC's history of development of the IVS

The International Valuation Standards Committee is also based in London. It was founded in Melbourne, Australia in 1981. The objectives of IVSC are stated as follows:

The principal IVSC objective is to formulate and publish, in the public interest, valuation Standards and procedural guidance for the valuation of assets for use in financial statements, and to promote their worldwide acceptance and observance.

The second objective is to harmonize Standards among the world's states, and to make disclosures of differences in standards statements and/or applications of Standards as they occur.

It is a particular goal of IVSC that international valuation Standards be recognised in statements of international accounting and other reporting standards, and that Valuers recognise what is needed from them under the standards of other professional disciplines. (IVSC's website www.ivsc.org)

²The concept of *Real Property* encompasses the interests, benefits and rights inherent in *Real Estate* ownership and holdings, including interests in the minerals. *Real Estate* is the physical land and appurtenances attached to the land. (Appraisal Institute, 1993).

From the perspective of the application of the IFRS, IVSC can be viewed as an important small sister to IASB. IVSC is developing the standards for valuation of assets that are reported at *fair (market) value* under IFRS. The Investment Property Standard recently released by IASB, references and quotes from IVS in its instructions for determination of *fair value*. However, the intended applications for the IVSC standards cover the broader spectrum of uses for formal valuations.

IVSC published the first edition of the IVS in 1985. By the 1997 edition a useful core set of standards was available, and the IVS was now recognised throughout the world and had already been incorporated into the domestic Standards of many nations. In recent years the pace of development has accelerated. The 2001 edition, which the author estimated as being approximately three times the size of the 1997 edition, is a very comprehensive, well organised, 458 page book (IVSC, 2001a). It is written in a relatively easy to read style, considering the nature of its content. The 2000 edition is available in a number of languages, as will be the 2002 edition. It contains guidelines for valuation of the four generally recognised Property Types (categories of assets), these being Real Property, Personal Property, Businesses, and Financial Interests (Intangible Property). It also includes a Code of Ethics and Competency Provisions for the Valuer, though IVSC and IASB have no enforcement mechanism of their own (Ellis, 2001d). Ten Guidance Notes sections address specific valuation topics, and work is in progress towards developing additional sections.

The development of the IVS has been guided by three principal objectives:

To facilitate cross-border transactions and contribute to the viability of international property markets by promoting transparency in financial reporting as well as the reliability of valuations performed to secure loans and mortgages, for transactions involving transfers of ownership, and for settlements in litigation or tax matters;

To serve as a professional benchmark, or beacon, for Valuers around the world, thereby enabling them to respond to the demands of international property markets for reliable valuations and to meet the financial reporting requirements of the global business community; and

To provide Standards of valuation and financial reporting that meet the needs of emerging and newly industrialised countries. (IVSC, 2001a, p15).

National valuation associations from 35 countries maintain full IVSC membership, and another 11 countries have observer status representation. IVSC is a Non-Governmental Organisation member of the United Nations, and like IASB works closely with many influential international bodies, such as the World Bank, the Organisation of Economic Cooperation and Development, the International Monetary Fund and the World Trade Organisation.

IVSC's EXTRACTIVE INDUSTRIES INITIATIVE TO ASSIST IASB's PROJECT

The primary incentive for the IVSC to develop a submission to the IASB regarding the extractive industries financial reporting standards comes from IVSC's role in providing standards support and consultation advice for the development of accounting standards for reporting the fair value

of assets in the IFRS. The IFRS, like its parent IAS, is designed as a current cost accounting system based on current value reporting for assets and liabilities.

Current value reporting

The reporting of the value of assets is one of the areas of most important difference between the IFRS and the older style GAAP systems of accounting still employed in the US and Canada. GAAP dictates reporting of asset value based on their historic cost. Each year the value of the asset is adjusted downward by depreciation, amortization or depletion. Addition of asset value to the accounts requires that an expenditure be capitalised. GAAP can provide accuracy to the cent in reporting to shareholders the depreciated value of a high rise New York or Toronto office building that a company has held for 20 years. It is an extremely precise accounting system. But, GAAP's accuracy is horrible. While the value of the office building is now reported in the accounts to stockholders at less than half its purchase price, the building's market value may have increased 5-fold. With a 10-fold inaccuracy in the value reported, the company is a takeover target. IFRS solves this serious problem by allowing current value (*fair value*) reporting for assets in the primary financial accounts of companies. Many companies in Europe that have adopted IFRS obtain fresh valuations of their major assets, particularly real estate, every two or three years. Those current asset values are entered into the accounts, then depreciation and amortization begin again.

IFRS allows companies to retain historic cost accounting if they prefer. However, once companies adjust their accounting systems to IFRS, it will in general benefit them to move to current value reporting for assets. In addition to providing the shareholder and financial community with a much more accurate statement of company assets, it will generally benefit companies by reporting much higher values for their appreciated assets. This will tend to elevate the price of their shares and aid fund raising. IASB wants to eventually phaseout historic cost accounting and migrate all financial reporting using IFRS to using current cost accounting with current value reporting for assets.

The author hopes that the proposed extractive industries financial reporting standard addition for the IFRS will provide similar current value reporting opportunities for mineral and petroleum deposits. However, the tentative views expressed in the IASC's *Extractive Industries Issues Paper* published in November 2000, and the content of responding submissions, provide cause for concern as discussed below (IASC, 2000).

IASC Extractive Industries Issues Paper

After 30 months of research, in November 2000 the Extractive Industries Steering Committee of the IASC released a 412 page *Issues Paper* containing a wide variety of discussion to consider and about 100 questions (IASC, 2000). Submissions in response were sought by 30 June 2001.

The Steering Committee's tentative recommendation is that primary accounts of extractive industries companies must be reported on an *historic cost* basis only. Disclosure of the current value of Reserves would be restricted to a supplemental information section and likely be based on a specified method for calculation of a pseudo value as is done now for US petroleum industry reporting. The possibility of reporting an estimate of the current value of any category of such Resources was not included (Ellis, 2001a, 2001d).

If the Extractive Industries IFRS is finalised with this perspective, the restriction to an historic cost accounting basis for Reserves and Resources will greatly handicap the financial abilities of the mining and petroleum industries relative to all other industries that will be allowed current value accounting of their assets (Ellis, 2001a; Lawrence, M, 2001). Research reviewed in the *Issues Paper*, partially based on the Australian experience, shows that investors react very favorably to current value reporting of reserves in the primary financial accounts of extractive industries corporations, resulting in “a significant effect on the value that the market places on an enterprise’s shares” compared to disclosure of the current values in the supplemental information.

IVSC’s Extractive Industries submission to IASB

In late January 2001, the author was contacted by the IVSC to assist it in developing its response to the *Issues Paper*. Due the long, close relationship with the IASB, the IVSC’s input can be expected to receive careful consideration. An IVSC representative has often been appointed to IASC committees that develop standards.

With the author’s assistance, the following volunteer Task Force of independent expert minerals valuers was quickly assembled:

Trevor Ellis as the US representative and Task Force leader. President, American Institute of Minerals Appraisers.

Michael Lawrence as the Australasian representative. Chairman, AusIMM’s VALMIN Code Committee.

William Roscoe as the Canadian representative (Ross Lawrence, alternate). Co-Chair, CIM’s Special Committee on Valuation.

Roger Sawyers as the U.K. representative. Chartered member, Royal Institute of Chartered Surveyors.

Raymond Westwood, Retired Valuer-General, Tasmania, Australia, provided enormous assistance and advice as Technical Editor, having a strong knowledge of the applications and interaction of IVS and IAS.

The response document drafted by the Task Force addressed issues pertaining to the nature of mineral deposits and their valuation. It did not respond to questions about some of the more esoteric areas of accounting. The response document was submitted by the IVSC to the IASB in June 2001 (IVSC, 2001b). Through this, the Task Force hopes to influence the IASB Steering Committee to modify the outcome to an appropriate current value accounting standard for the extractive industries, based on an international minerals valuation standard.

The IVSC has allocated some financial sponsorship for international travel expenses to the Task Force to assist it in composing on a timely basis an Extractive Industries addition to IVS, and for providing additional support to the IASB as may be requested. IVSC is seeking minerals and petroleum industry financial support to provide the Task Force with additional sponsorship for this very time consuming undertaking (but no support had been received at the time of this

writing in late February, 2002). An expanded IVSC Task Force should begin drafting the Extractive Industries addition soon after the IASB announces the results of its review and consideration of the submissions, which is expected by May 2002.

In the review of mining and petroleum industry practice in the IASB Issue Paper, Steering Committee members expressed considerable concern about the lack of tight industry standards for the inputs into reserve and resource estimates, particularly economic inputs. Confusion by the Steering Committee is apparent in the document over what, if any, similarities might be drawn between the petroleum industry's reserve definitions (by WPC-SPE) and the mining industry's Reserve and Resource reporting Standard (the Australasian JORC Code, adopted internationally through the Council of Mining and Metallurgical Institutions and incorporated in United Nations' definitions) (JORC, 1999; Miskelly, 2001). In addition to the lack of "quality" that Steering Committee members perceive in reserve and resource estimates, they express concern about the difficulties and inconsistencies in valuation of those reserves and resources. The petroleum industry has much more distance to cover in addressing these concerns than the mining industry. The petroleum industry's reserve definitions are looser than those of the mining industry; the petroleum industry lacks an equivalent of the Reserve-Resource reporting Standard of the mining industry based on defined Competent Person requirements; and no equivalent of the Australian mining industry's VALMIN Code is present for petroleum (VALMIN Code, 1998). In drafting the submission, considerable effort was directed at explaining and demonstrating those differences and attempting to remove the confusion.

The following, directly quoted, are the main recommendations made in the IVSC submission:

- There should be a single reporting Standard for the extractive industries with differences between the mining and petroleum industries covered by individual rules.
- The *fair value* of Proved and Probable Mineral Reserves and proved petroleum reserves should be the preferential reporting definition in the primary financial accounts, with *historic cost* reporting for these reserves as an option. No reporting of value of probable or possible reserves for petroleum, or any Mineral Resource categories should be allowed in the primary accounts.
- For mining industry enterprises, quantitative and qualitative information should be included in the supplemental statements for all Mineral Reserve and Mineral Resource categories.
- For petroleum industry enterprises, quantitative information should be included in the supplemental statements for all proved and probable reserves. No reporting for possible petroleum reserves should be allowed, nor should such for any petroleum resource category. The IVSC Task Force has concluded that the content of the petroleum possible reserves category is much too speculative for public disclosure as reserves, while the potential for profitable extraction from the contents of the resource classes within a reasonably foreseeable timeframe is too low for public disclosure.
- For mining industry enterprises, reporting of the *fair value* of Measured and Indicated Resources should be encouraged in the supplemental notes, with mandatory *historic cost* reporting required as the alternative. *Fair value* reporting for Inferred Mineral Resources

and exploration properties lacking defined Mineral Resources should also be allowed, subject to careful review for reasonableness, and only if such value does not compose a large portion of the value of the company, with *historic cost* basis being the alternative.

- *Fair value* disclosure for probable petroleum reserves should be allowed in the supplementary notes. Such disclosure should also be allowed for exploration properties lacking proved or probable reserves, subject to careful review for reasonableness, and only if such value does not compose a large portion of the value of the company. In both cases, *historic cost* basis disclosure should be the alternative.
- The IASB standard should specify that reports of Mineral Resource and Mineral Reserve estimates must be developed and reported in compliance with one of the CMMI-based standards. A Competent Person similar to that specified in the CMMI-based standard must take responsibility for the report. Reports of petroleum reserve estimates should comply with the SPE/WPC definitions. IASB should encourage the petroleum industry to develop a petroleum reserve reporting standard containing a competent person provision similar to that in the JORC Code.
- *Fair value* valuation of all mineral and petroleum properties should be performed by defined Competent Persons and the name and qualifications of such persons should be disclosed by notation in the supplemental statements. Guidance by a comprehensive internationally respected mineral and petroleum valuation standard should be specified. Presently the Australasian VALMIN Code is the only standard available that meets those criteria. However, the Task Force does not view it as suitable for direct application to meet such wide ranging needs. Development by IVSC of the Extractive Industries guidance section of the International Valuation Standards using VALMIN and CIMVal as a base will allow a truly international extractive industries standard suitable for all jurisdictions to be referenced by the IASB Standard.
- The proposed IASB Standard must allow changes in the value of mineral and petroleum assets to be made in the financial statements without being reflected in the profit and loss statements. A requirement to reflect such changes in the profit and loss statement will discourage reporting of negative corrections, while positive changes could frequently mask operating results.
- *Fair value* revaluation of mineral and petroleum properties should only be expected at four or five yearly intervals for inclusion in the primary accounts and supplemental disclosures or when major quantitative changes in reserves or resources occur that are not due to production.
- Any enhancements to the petroleum industry's resources and reserve reporting definitions which IASB determines are needed, or possible future development of a reserve reporting standard, should be coordinated through SPE/WPC or a successor international body representative of the petroleum industry as may exist at the time.
- Any enhancements to the mining industry Mineral Resource and Mineral Reserve reporting Standards which IASB determines are needed must be made through CMMI or its successor.

- The proposed Standard should clearly differentiate the current valuation requirements for *fair value* and *value in use*, the former being entirely market related and the latter being entity specific. *Value in use* should conform to existing IASB definitions to take account of account trading connections, contractual arrangements and management attributes and be related to identifiable cash flow units. *Value in use* calculations should not include internally generated goodwill in the cash flows.

Industry Support Needed

The negative attitude of the IASB Steering Committee expressed in the IASC *Issues Paper* towards disclosure of current value estimates and resource estimates for mineral deposits has considerable momentum. If not reversed, this negative attitude will result in the Extractive Industries IFRS being drafted to allow only historic cost accounting in the primary financial accounts and preventing quantitative disclosure of Resources and other non-Reserve mineralisation. Discouragingly, it presently appears that the large majority of submissions received by IASB recommended limiting the extractive industries to historic cost accounting. Even Australasia's Joint Ore Reserve Committee (JORC) has campaigned for only historic cost accounting, which appears to have resulted from a lack of understanding of the relevant accounting and valuation goals, principles and practice (JORC, 2001).

For this negative momentum to be reversed so as to result in a favorable current value accounting outcome based on fair value reporting of Reserves in the primary financial accounts, there will need to be a great increase in interest and involvement from the mining industry, and particularly the petroleum industry at this late date. This must be reflected in moral and financial support for the IVSC's Extractive Industries Task Force's development of an Extractive Industries Guidance section for incorporation in the IVS, their meeting with IASB Steering Committee members during the drafting of the IFRS, and their critiquing of the IASB drafts of the standard(s) when it is published. The author has already made tentative arrangements with the IASB's lead person on this project to meet in London once the results of the analysis of the submissions is available.

A positive outcome from these efforts will provide immense financial benefits for the mining and petroleum industries internationally, especially when compared to the financially depressing alternative. In essentially one coordinated action, this can put in place Reserve-Resource reporting standards, Valuation Standards, and Competent Person requirements, for the mining and petroleum industries, for financial reporting for the securities markets worldwide, and similarly standards for valuations for private and public sector purposes unrelated to company financial reporting.

CONTENT OF THE IVS EXTRACTIVE INDUSTRIES ADDITION

The IVS and IFRS are nonprescriptive standards. They provide principles, concepts and general direction, then expect good judgment, honesty and professionalism in determining how to accomplish the goals. They provide few rules and little in the way of detailed guidance or benchmarks. Selection of this route to developing standards has been a very important philosophical decision regarding how to write the IVS and IFRS.

By comparison, the US GAAP accounting standards are detailed and specific, because US companies and auditors prefer them that way. This prescriptive accounting approach of the US GAAP is viewed by some experts as a reason behind some of the recent spectacular accounting disasters such as the collapse of Enron Corporation. In contrasting the two standards development policies, Sir David Tweedie, Chairman, IASB, recently told the US Senate Banking Committee:

Companies want detailed guidance because those details eliminate uncertainties about how transactions should be structured. Auditors want specificity because those specific requirements limit the number of difficult disputes with clients and may provide a defence in litigation. Securities regulators want detailed guidance because those details are thought to be easier to enforce.

The IASB has concluded that a body of detailed guidance (sometimes referred to as bright lines) encourages a rule-book mentality of 'where does it say I can't do this?' We take the view that this is counter-productive and helps those who are intent on finding ways around standards more than it helps those seeking to apply standards in a way that gives useful information. Put simply, adding the detailed guidance may obscure, rather than highlight, the underlying principle. The emphasis tends to be on compliance with the letter of the rule rather than on the spirit of the accounting standard.

We favour an approach that requires the company and its auditor to take a step back and consider whether the accounting suggested is consistent with the underlying principle. This is not a soft option. Our approach requires both companies and their auditors to exercise professional judgement in the public interest. There will be more individual transactions and structures that are not explicitly addressed. We hope that a clear statement of the underlying principles will allow companies and auditors to deal with those situations without resorting to detailed rules. (Tweedie, 2002).

In drafting the extractive industries addition to the IVS, the Task Force will have to maintain the same nonprescriptive philosophy, instead including principles, concepts, general direction and goals. Specific instruction, recommendations and examples pertaining to analysis and methods should be kept out of the draft. If the valuer doesn't know what verification, analysis or methods his peers would consider appropriate, he needs to get appropriate experience or education elsewhere. We may look to the CMMI or national mining institutes to provide valuers with more detailed guidance.

The Canadian CIMVal Committee has done very good work in laying out the Draft CIMVal Standards (CIMVal, 2002) so that the document reads easily, embodies the Generally Accepted Valuation Principles and the "Fundamental Principles" from the VALMIN Code, provides the necessary links to the relevant regulations, and ends with a useful "Recommended Table of Contents" for a valuation report. However, it will be difficult to take much material directly from the Draft CIMVal Standards since much is based on Canadian specific definitions and regulations; the Recommended Table of Contents fails the prescriptiveness test; and all other paragraphs would need to be reviewed to assure that they are not too prescriptive.

The Extractive Industries Guidance addition will also need to be structured very differently to the structure used in Draft CIMVal Standards document, though this does not cause any

significant change in the application of the valuation principles. The layout will need to follow the same heading structure and style as the other IVS Guidance sections while also fitting within about a 20 page length. Thankfully the CIMVal Committee has already shown us how to keep the document concise. Also, general valuation definitions and concepts are provided elsewhere in IVS and will not be repeated in this section.

Important definitions and rules pertaining to mineral and petroleum properties, such as concise Mineral Resources and Petroleum Reserve definitions and general mineral industry valuation concepts and principles must be included. In particular, the important Competent Person concept for Mineral Reserve and Mineral Resource estimation must be included. Mineral Reserve and Mineral Resource category definitions and the Competent Person definition must be written in such a way that they are not country or mineral institute specific. Rather than including the various comprehensive definitions and tables pertaining to reserves, resources and exploration properties of SPE-WPC and CMMI-UNFC, it seems that they should be listed as important references. However, a review of the IVS shows that IVSC practice is to exclude such comprehensive material entirely. References to such external documents are not used.

Some guidelines should be included to aid the valuer in correctly classifying mineral and petroleum properties into the appropriate Property Types prior to valuation. Mineral and petroleum property holdings are generally real property, while certain interests in them will be considered financial or intangible. An operating mining business or mining company may need to be divided into its real property, personal property and intangible property components before valuation.

Similarly, once the draft extractive industries IFRS becomes available, it will be necessary to provide guidelines within IVS on how to conduct and report valuations to the requirements of that IFRS. It may prove appropriate to incorporate such guidance in the International Valuation Applications, where IVA 1 already covers financial reporting. It may be found that definitions and instructions within that IFRS conflict with or override the equivalent definitions within IVS. For example, the Extractive Industries IFRS could include a more stringent definition of the qualification and experience requirements of a valuer for mineral or petroleum properties.

CONCLUSIONS

In the US, the SEC's *Industry Guide 7* prevents the reporting of the quantity, quality and value of resources in public financial reports. This prevents investors from receiving important information about mineral properties and mineral companies. Allowing the disclosure of an estimate of "mineralized material" does not aid investors very much because of a lack of understanding and confidence in the meaning of the information. In prohibiting the reporting of Resources, the US is out of step with much of the world and is driving many mining companies from the US exchanges to the Canadian.

The U.S-based Society of Mining, Metallurgy and Exploration's Guidelines for reporting of Mineral Reserves, Resources and Exploration Information have little influence in the US because of lack of recognition by the SEC.

The tentative views expressed by the Extractive Industries Steering Committee in its *Issues Paper* released by the International Accounting Standards Committee in November 2000, show disturbing similarities in perspective to those contained in *Industry Guide 7*. If the extractive industries financial reporting standard is finalised with this perspective, the mining industry will suffer a major setback in effectively losing CMMI-based reporting for Resources when the International Finance Reporting Standards are instituted globally.

The SME is seeking to provide a mechanism to meet the needs of members who wish to work under an enforceable Code of Ethics as an independent Competent Person for taking responsibility for public reports.

Mineral industry institutes in countries such as the US and South Africa should cease their initiatives to develop national valuation standards for mineral properties. Instead they should support the efforts of the International Accounting Standards Board and the International Valuation Standards Committee to develop extractive industries standards for inclusion with their existing standards. The IASB's International Financial Reporting Standards and the IVSC's International Valuation Standards are rapidly achieving complete global coverage and will likely make national valuation standards largely irrelevant within just a few years.

Professional licenses issued on a state-by-state basis are increasingly required for much of the work performed in the US for the mining industry by independent consulting engineers, geologists and minerals valuers. State licensing of professionals forms a substantial barrier to interstate and international trade in professional services. Most independent US professionals ignore these laws.

Based on the tentative views expressed against resource reporting and current value accounting in the IASC Extractive Industries *Issues Paper*, and that a substantial majority of submissions received favored only historic cost accounting, it is likely that the IASB's Extractive Industries Steering Committee is disinclined to allow current value accounting for the Extractive Industries with fair value reporting for mineral and petroleum reserves. Due to this, the mining and petroleum industry companies will be handicapped relative to almost all other financial sectors, due to their stock prices being relatively depressed because of the historic cost accounting rules.

Mining and petroleum companies have not yet provided IVSC with any sponsorship for its Extractive Industries Task Force's effort to develop the IVS Extractive Industries Standard and the submissions to the International Accounting Standards Board on the development of the Extractive Industries International Financial Reporting Standard. Mining and petroleum industry companies should financially support the IVSC and its Extractive Industries Task Force to help assure a favorable outcome for the industry from these standards development initiatives. The author is hopeful that through IVSC's cooperation with the IASB's Extractive Industries Steering Committee, the outcome will be a favorable current value Extractive Industries International Financial Reporting Standard.

The author has provided his initial suggestions regarding the appropriate content for the IVS Extractive Industries Guidance addition. He has also proposed that the Council of Mining and Metallurgical Institutions and the World Petroleum Congresses develop supplemental valuation guidelines to support the IVS. National mining institutes should adopt the IVS and develop disciplinary procedures for members who violate the Standards. National mining and petroleum

institutes or national regulatory bodies may find it beneficial to develop supplemental guidelines for application of the extractive industries valuation standards in their country.

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