

ATTACHMENT FOR AGENDA ITEM 5

INTERNATIONAL VALUATION STANDARDS BOARD

5 February 2010

AGENDA ITEM 5

EXTRACTIVE INDUSTRIES

At its working meeting in Madrid, the Board agreed that the views, and hopefully financial support, of the extractive industry be sought before beginning work on a project to review and update existing guidance in the International Valuation Standards. The attached brief has been prepared as a basis for discussion with potential supporters.

IVSC EXTRACTIVE INDUSTRIES PROJECT

The IVSC is the global standard setter for the valuation profession. Its mission is to set and maintain effective high-quality global standards for the performance of valuations by the valuation profession and to contribute to the development of the worldwide valuation profession, thereby serving the public interest.

It also supports the need to develop a framework of guidance on best practice for valuations of the various classes of assets and liabilities and for the consistent delivery of the standards by properly trained professionals around the globe.

The International Valuation Standards Board (the independent standard setting board of the IVSC) is consulting on whether to add a project to review and update its current guidance on the valuation of extractive industries to a standard supported by best practice professional guidance. It would welcome views from those within the extractive industries as to whether there is a) the need for such a project; and b) whether they would be prepared to support such a project with both financial and intellectual resource.

BACKGROUND

The pace of change in the world of extractives industries reporting has accelerated rapidly in the last few years due to the interest being shown by securities regulators, organisations like the International Accounting Standards Board, corporate governance compliance, auditors and NGO's with an interest in the sustainability of reserve developments and the benefits that flow from the extractive industries.

IVSC Guidance Note 14

The IVSC published Guidance Note 14, *Valuation of Properties in the Extractive Industries* in 2005; since republished in the 8th edition of the International Valuation Standards (2007). The purpose of the GN is to "provide clarification and guidance on the valuation of assets of property interests (rights) held by entities involved in the Extractive Industries. It distinguishes among the various property interest that must be recognised, and discusses concepts that should be understood by financial reporting and regulatory authorities, courts, financiers, investors, participants in natural resource transactions, and other users of valuation services for property involved in the Extractive Industries."

Other valuation guidance

Other published valuation guidance includes the following national valuation reporting codes, all of which refer to the IVSC:

Standards and Guidelines for valuation of mineral properties endorsed by the Canadian Institute of Mining, Metallurgy and Petroleum (the "**CIMVAL Code**" 2003). The Code states that its objective is to be consistent with IVSC standards.

The Australian Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports (the "**VALMIN Code**" 2005) refers to the fact that it is country specific and the IVSC work to develop international standards and guidelines. It further states that the Code was prepared in accordance with Australian law, circumstances, practices and terminology and that it is 'country specific'.

The South African Code for the Reporting of Mineral Asset Valuation (the “**SAMVAL Code**” 2008). The document was put together by a working group under the leadership of the South African Institute of Mining and Metallurgy (SAIMM) in an attempt to compile a set of rules and guidelines regarding the valuation of South African mineral properties, including details on what information needs to be disclosed, the competence and experience requirements of a mineral property valuator, and guidelines for the contents of a valuator’s report on a mineral property. The Code acknowledges that “... it should be noted that national Mineral Asset Valuation Codes in other countries, and from Valuation and Accounting bodies such as the International Valuation Standards (IVS) and the International Accounting Standards Board (IASB) differ from each other and this Code”.

Some commentators have stated that the proliferation of Codes for Valuation around the world has resulted in a set of Codes that are virtually irreconcilable, and which differ widely in terms of scope, definitions, approaches, jurisdictions etc., thus making international valuations very difficult indeed, especially where they cross jurisdictional boundaries.

The difficulty of a lack of a single, well recognised international code has been faced by the Hong Kong Exchanges and Clearing Ltd as it seeks to develop new listing rules for mineral and exploration companies. The Consultation Paper (issued Sept 2009) proposed “that if valuations of natural resources properties are provided, they must be prepared by independent experts and submitted in accordance with either the Code for the Technical the “VALMIN Code”, the “SAMVAL Code”, the “CIMVAL Code”.

However a number of respondents have pointed out that the codes are country specific and not consistent in their requirements which has led to HKEx contacting the IVSC.

International Accounting Standards Board Extractive Industries Project

The Extractive Activities project at the IASB opens the door to potential radical changes to financial reporting for mining and oil & gas. There is little guidance on the accounting for exploration, development and production of minerals and oil & gas in current IFRS. There are currently a wide range of accounting and reporting practices adopted by enterprises in the extractive industries. The Extractive Activities Discussion Paper (DP), published in draft form on 10 August 2009, is the first step towards an IFRS for these activities that is acceptable globally and leads to comparable and transparent reporting by extractive industries enterprises.

The DP considers the financial reporting issues for extractive activities and provides views on:

- the definitions of reserves and resources for financial reporting purposes
- the basis for recognising mineral and oil & gas assets
- initial and subsequent measurement of mineral and oil & gas assets
- disclosures.

The Discussion Paper concludes that historical cost is the best measurement model because it does the ‘least harm’ – it is not a resounding endorsement of the approach. The paper discusses the numerous possible measurement approaches (historical cost, current cost, fair value, etc), and finds, in light of discussions with analysts, users and preparers, that none of the possible measurement approaches is particularly useful. During the earlier stages of the project, the IASB made it clear to the project team that it should not discount the use of fair value accounting in the Discussion Paper.

Some Board members even remarked at that time that ‘unless you recommend fair value accounting, you’re wasting your time’. The IASB has not endorsed the Discussion Paper proposals as yet and the paper itself is not ‘strong’ in its conclusion that historical cost is the right answer. This places the timing for the ED in 2011–2012 and a standard sometime after that, perhaps 2013. With the usual implementation lead time, this could mean the earliest a new standard would be applicable is probably 2014.

THE IVSC PROJECT

Objective

The objective of the project is to review the current Guidance Note 14 *Valuation of Properties in the Extractive Industries* and update for publication as a standard within a new edition of the International Valuation Standards. The project would also consider the need for further best practice professional guidance to support a new standard.

Project Development Process

The project development process

- Creation of expert group
- Appointment of a technical consultant

The expert group

The expert group will consist of c 6 members; be geographically and sector balanced and representing producers, advisors and regulators. The group will be chaired by a member of the IVSB. It will report to both the IVSB and the International Valuation Professional Board (the independent board of the IVSC charged with developing professional guidance).

Membership of an IVSC Expert Group is not a remunerated position, but IVSC will reimburse reasonable travel and other costs associated with attending meetings of the Group, or in representing IVSC on any third party working groups if it is their employer’s policy not to provide reimbursement for such costs.

Meeting arrangements - the expert group will conduct its business primarily by electronic means, but will retain the option of meeting to ensure some discussion occurs on a face to face basis. These meetings may take place at a time convenient for expert group, including immediately before or following an IVSB/IVPB meeting.

Development process - the IVSC follows a formal due process for the development of standards and guidance. That process involves the preparation and issuance for comment of an exposure draft (ED) that identifies the proposed requirements of a standard/guidance and consideration of responses to the ED in the process of finalizing the standard/guidance. The due process may also include the issuance of consultation papers prior to the development of an ED. The issuance of documents for public comment will be subject to the voting rules of the IVSB/IVPB.

The technical consultant

A technical consultant would be appointed to be responsible for preparation of drafts of key documents which will be subject to review by the expert group.

Project timetable

2010

February	discussion with potential sponsors
March – April	Expert Group selected and confirmed
April -September	Expert Group Task Force develops draft standard
October -	IVSB reviews first draft of proposed standard and approves for exposure
November – March 2011	exposure period

2011

April	Expert Group considers submissions to ED and provides directions for finalisation of standard. Considers need for best practice guidance to support implementation of standard
June	publication of final standard Report to IVPB on need for best practice guidance

Factors that might add to complexity or length

The project addresses a large subject in an area and the brief may need to be subdivided into 'mining' and 'oil/gas'. Decisions made following analysis of the need for professional best practice guidance will also affect the length of the project.

RESOURCE REQUIREMENTS

The total cost of the project is estimated to be (to be completed)