International Valuation Standards Council (IVSC)

Discussion paper

Valuations in the Extractive Industries

Response of the
Royal Institution of Chartered Surveyors (RICS)

Contact:

Lorraine Howells MRICS
RICS Associate Director Valuation Professional Group
lhowells@rics.org

Fiona Mannix ACMA
RICS Associate Director Land Professional Group
fmannix@rics.org
Introduction

The Royal Institution of Chartered Surveyors (RICS) has noted the publication of the Discussion Paper – Valuation in the Extractive Industries – produced by the International Valuation Standards Council (IVSC) in August 2012 and welcomes the opportunity to comment.

RICS is the global leading organisation for professionals in real estate, land, construction and related environmental issues as well as working in the personal property and business assets sectors.

A significant proportion of our members are involved in the valuation of all manner of assets. Members work to the current standards which are the “RICS Valuation – Professional Standards” effective from 30th March 2012. These standards are commonly known as “the Red Book” and contain mandatory rules and best practice guidance for valuations of real estate and other assets.

RICS adopts the International Valuation Standards (IVS) 2011. Those reports that comply with the Red Book are deemed to comply with IVS. The adoption of IVS in the Red book provides an implementation and practice framework for the application of IVS globally, ensuring that RICS members follow consistent methodologies throughout the world.

For more information please visit http://www.ricsvaluation.org/

Response to the Discussion Paper

RICS have taken the opportunity to read the discussion paper and we have chosen to express our views to some, rather than all, of the questions posed.

General points:

RICS recognises that for any valuer to undertake a valuation of any sector utilising an income approach and specifically a DCF calculation, in depth industry knowledge and numerous inputs from other industry professionals will be required.

RICS have members operating in the mining sector in various capacities including of course valuation. RICS members involved in valuation within the mining sector have the requisite skills and expertise to undertake complex valuations.

Regarding the oil and gas sector, our critical mass of members currently operating in the oil and gas sector are primarily hydrographic surveyors though we see opportunities for valuers to develop their knowledge and expertise in this sector over time.

Question responses:

Q 1.1:

RICS believes that separate guidance is required for mining and oil and gas.
The reasons for this are that while all sectors fall under the generic title of extractive industries, the workings of the mining sector are very different to that of the oil and gas sector and for any guidance to be meaningful and be of assistance to valuers the guidance will need to be specific to the industry sectors. Oil and gas exploration and production in particular is a highly complex industry unlike any other and this needs to be recognised.

Q 1.2:

(a) RICS believes that the project focus should not just be on the valuation of reserves but should be expanded to the valuation of the entire business.

While RICS recognises the complexity and different approaches utilised in both calculating and ultimately valuing reserves across the sectors, and the need for any specific sector guidance produced to specifically address this area in some detail to ensure harmonisation across companies and borders, we believe that valuers will be required to be in a position to value the entire business thereby supporting the need for comprehensive guidance.

Q1.3:

RICS agrees with the Board’s preliminary view as to the type of pronouncements that IVSC should make in relation to valuations in the Extractive Industries.

Q 2:

(a) RICS members are familiar with the former GN14.

RICS welcomes a forensic review of GN14.

Q 3:

(a) The UK Quarrying Industry adopts the PERC (Pan European Reserves and Reporting Committee) Code.

Q 4:

(a) The valuation approach will depend on the purpose of valuation and the asset being assessed.
Members will often apply a number of approaches to guide them to an opinion of value.

Q 5:

(b) Within the mining sector the “market approach” has been historically used in the UK, especially for applying royalties to assets. However, no two sites are the same (so adjustments must be made for physical and geographical factors) and the market may not be transparent, leading at times to a paucity of reliable evidence.

Q 6.2

(a) Rates relative to other investments / client hurdle rates / market norms
(b) Yes
(c) Risk
(d) Yes
Q 9:
RICS members are regularly engaged to assess future restoration costs and environmental liabilities. The costs are assessed by experienced practitioners and translated into Present Value using deferment at an appropriate rate to reflect the present value of a future cost.

Q 10:
(a) Professional qualifications and industry standing – reliance must be placed on other professionals
(b) Yes – RICS members will check “in house” where they can and look for compliance with reporting codes
(c) Identification of variables and possibly a valuation matrix to illustrate sensitivities

RICS would welcome the opportunity of working with IVSC on this important subject area if required.