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# A perspective on global harmonisation of major national mineral asset valuation codes

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## ABSTRACT

Companies involved in the minerals industry have been exposed to operating in more than one geographical jurisdiction for over a century. This practice has been amplified in recent decades by globalisation of the world economy. Cross-jurisdictional exposure has required that the way information on mineral assets is reported in the public domain or as industry best practice be standardised in order to provide a common understanding, irrespective of regulatory jurisdiction. Accordingly, a global committee known as the Committee for Mineral Reserves International Reporting Standards (CRIRSCO) was formed in 1994 to align national minerals reporting codes. CRIRSCO initially published a template in 2006 and updated it in May 2013 to align the national mineral reporting codes. The template fosters a common understanding by harmonising the definitions, classification, estimation processes and the public reporting of exploration results, mineral resources and mineral reserves. The standardisation of minerals reporting codes is a foundation from which inputs to subsequent valuations are defined. However, despite the various national valuation codes having adequate high-level commonality on some principles, valuation approaches, competence and application of these codes, there are differences that arise in the areas of definitions, some principles and scope that require alignment. Consequently, the International Mineral Valuation Committee (IMVAL) was formed in 2012 in Australia, primarily to develop a globally acceptable mineral asset valuation (MAV) template by harmonising the valuation codes. This paper contributes to the development of such a template by providing a plausible framework for its development. The framework is premised on a skeletal structure that initially encompasses only high-level commonality among the major valuation codes, while allowing jurisdiction-specific requirements to be addressed at the national level. There is flexibility for the template to evolve over time to include aspects not initially addressed, such as valuation of mineral corporations and their respective securities, and valuation of oil and gas assets.

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## Introduction

Companies involved in the minerals industry have been exposed to operating in more than one geographical jurisdiction for over a century. This practice has been amplified in recent decades by globalisation. Globalisation is a system that has become a dominant feature globally and has been analysed by several authors such as Thomas L. Friedman, who in 1999 published the book *The Lexus and the Olive Tree*, to explore this concept. Globalisation of trade and financial services has enhanced the exposure of companies involved in the minerals industry by accelerating their involvement across diverse geographical locations such that they now often operate, have shareholders or occasionally engage consultants in more than one country. This development required that the way information

on mineral assets is reported in the public domain or as industry best practice be standardised in order to provide a common understanding, irrespective of geographical location or regulatory jurisdiction. Globalised standards facilitate common understanding and interpretation of information. The information reported on mineral assets can generally be classified into three broad categories: reports on mineral resources, technical assessments and valuations. Globally, there are currently many competent estimators for resource reporting and technical professionals for technical assessment reporting, but very few competent valuers<sup>1</sup> for valuation reporting because mineral asset valuation (MAV or 'valuation') is a relatively emerging discipline.

Renderu and Miskelly (2008) reported that in the ten to fifteen years prior to 2008, substantial progress had been made to achieve the goal of standardised reporting of information on mineral assets.

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A global committee or organisation, known as the Committee for Mineral Reserves International Reporting Standards (CRIRSCO), was formed in 1994 to align national minerals reporting codes for the reporting of exploration results, mineral resources and mineral reserves. In 2006, CRIRSCO published a template, which was later updated in May 2013. The template is now globally accepted and aligns national reporting codes by fostering a common understanding by harmonising the definitions, classification, estimation processes and the public reporting of exploration results, mineral resources and mineral reserves. The CRIRSCO-based alignment of the national reporting codes has, in part, been catalysed by the increasing globalisation of investors and access to securities exchanges worldwide, which is further supported by an overriding securities exchange principle of protecting the investors.

The standardisation of minerals reporting codes by CRIRSCO created a solid framework or base to define mineral resources. Once mineral resources are defined through this framework, it should become easier for the next step of valuation of such resources. This should facilitate the development of a global MAV template through the harmonisation of the national valuation codes since the resources are already defined through a globally accepted template. The use of the CRIRSCO international template ensures common understanding, interpretation and classification of the resources. The importance of CRIRSCO is that it identifies the mineral resources in the ground and provides guidelines on the classification of these resources as they form the basis of property that would be valued. It is important to understand an extractive entity's minerals or oil and gas resources and reserves because they are the most significant assets or among the most significant assets of those entities as they are a source of future cash flows (IASB, 2010).

This assertion concurs with Ellis (2012), who stated that, *“a mineral resource estimate, if one exists, will be an important input in developing a valuation estimate of a mineral property, together with other extensive information such as geographical, environmental, regulatory and permitting, political and social, transport, products and product markets, cost estimates and details from transactions of mineral properties with similar characteristics.”*

Globally, the major national valuation codes are as follows:

- The Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports (The VALMIN Code, 2005) developed by a joint committee of the Australasian Institute of Mining and Metallurgy with a number of other bodies, for Australasia;
- The Standards and Guidelines for Valuation of Mineral Properties (The CIMVAL Code, 2003) developed by a Special Committee of the Canadian Institute of Mining, Metallurgy and Petroleum (CIM) on Valuation of Mineral Properties for Canada; and
- The South African Code for the Reporting of Mineral Asset Valuation (The SAMVAL Code, 2008) developed by the South Africa Mineral Asset Valuation (SAMVAL) Working Group under the joint auspices of the Southern African Institute of Mining and Metallurgy (SAIMM) and the Geological Society of South Africa (GSSA), for South Africa.

These three valuation codes predominantly focus on solid minerals. Since the valuation codes were developed after taking cognisance of the original VALMIN Code of 1998, they tend to share some common valuation principles, but differ in terms of definitions, structure and application. The current reviews of national valuation codes by some countries may inform the standardisation of valuation principles, definitions and other valuation issues. This paper primarily compares these three codes, and hence focuses on the solid minerals extractive industry, but makes occasional reference to the petroleum industry where necessary. It also notes that in the

United States the Uniform Standards of Professional Appraisal Practice (USPAP) is used for valuation purposes, whereas in the United Kingdom the Royal Institute of Chartered Surveyors (RICS) professional standards are similarly used.

In April 2012, a CRIRSCO-equivalent committee for valuations, named the International Mineral Valuation Committee (IMVAL), was created in Brisbane, Australia, soon after the VALMIN Seminar Series. The agreement to create IMVAL is therefore often loosely referred to as the ‘Brisbane Accord’. IMVAL was premised on a model that its members would be representatives of their respective National Reporting Organisations (NROs). NROs are responsible for developing valuation codes, standards and guidelines in Australia (VALMIN), Canada (CIMVAL), South Africa (SAMVAL), the United States (AIMA<sup>2</sup> and SME<sup>3</sup>) and the United Kingdom (RICS<sup>4</sup>). IMVAL is envisaged as an international advisory body without legal authority, but relying on its constituent members to ensure regulatory and disciplinary oversight at a national level.

IMVAL intends to provide a platform for the harmonisation of the national valuation codes and to promote best practices in the international reporting of mineral valuation results. The authors are of the view that IMVAL should initially confine its mandate to the valuation of solid minerals only in order to take advantage of the already globally acceptable CRIRSCO template on the classification of mineral resources that are used as an input to the valuation process. This implies that for IMVAL's purposes, mineral assets should then be initially limited to the valuation of interests held in exploration results, mineral resources and mineral reserves as part of the mineral property. This approach will also resonate with the commonly held argument that mineral assets have unique characteristics that make them different from assets in other industries; hence, they require valuation methodologies that are specific to mineral assets.

In the accounting fraternity Basoglu and Goma (2003) defined ‘harmonisation’ as the process of reducing the degree of variation in international accounting practices, whereas in a project to harmonise mineral policies in some Southern African countries, the United Nations (2004) defined ‘harmonisation’ as the development of high-level, common standards to which national policies, laws and regulations are subsequently aligned to reduce, as much as possible, differences in operating environments among countries. Common to these definitions is the reduction of variations at a high level. This paper, therefore, assumes harmonisation to imply reducing the degree of variation in the international valuation practices at a high level, in terms of how mineral assets are defined, valued and reported in the public domain or as industry best practice.

### Why harmonise valuation codes?

Several arguments support the harmonisation of valuation codes. First, there is currently no single, internationally recognised template for the valuation of mineral assets. In addition there have been scandals in recent decades, such as the Bre-X scandal of 1997, which have revealed a lack of accountability, incompetency and misleading reports on mineral resources and mineral reserves reported on international financial markets. These scandals may be attributed to a lack of uniform standards and requirements for the public reporting of mineral resources, valuation processes, competence and responsibilities of competent persons and competent valuers. Some leading mineral-rich countries and their respective stock exchanges

<sup>2</sup> American Institute of Mineral Appraisers (AIMA).

<sup>3</sup> Society for Mining, Metallurgy and Exploration (SME).

<sup>4</sup> Royal Institution of Chartered Surveyors (RICS).

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