

**MINUTES OF THE**  
**SAMREC/SAMVAL WORKING GROUP**  
**MEETING HELD ON 10 SEPTEMBER 2010 AT 10:00 at -**  
**THE CHAMBER OF MINES BUILDING, 6<sup>TH</sup> FLOOR, ROOM 606**

**PRESENT:**

Mike O'Brien (Chairman) (MOB)	
A McFarlane (AMcF)	G Smith (GS)
R Croll (RC)	A Clay (AC)
M McWha (MMcW)	G Njowa (GN)
Annalie de Bruyn (AdB)	D Dingemans (DD)
C Dohm (CD)	D Young (DY)
A Moyes (AM)	B Mills (BM)
P White (PW)	E Takolia (ET)
V Deonarain (VD)	K Rayner (KR)
K Coster (KC)	K Petzer (KP)
S Rupprecht (SR)	J Witley (JW)
O Hannweg (OH)	

**APOLOGIES/ABSENT:**

A de Bruyn (AdB)	E Saaiman (ES)
F Harper (FH)	R Ingram (RI)
K Kenyon (KK)	P-J Grabe (P-JG)
R Davel (RD)	S Joubert (SJ)
X Provost (XP)	P Robinson (PR)
K Redman (KR)	

**IN ATTENDANCE:**

Julie Dixon  
Jacky van Loggerenberg

***Note to these minutes: This document is compiled by Judy Carpenter, based on the recording and notes made/done by J van Loggerenberg***

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**WELCOME**

The Chairman welcomed all to the 6<sup>th</sup> Working Group meeting of 2010.

**MINUTES OF THE PREVIOUS MEETING**

Page 1 – R Croll was erroneously noted as being present at the meeting.

Page 4: General: Mike O'Brien assumed the chairmanship of the SSC and not the Working Group as stated.

RC objected very strongly to the comment recorded under 5.2 Independence: "However, none of these responders fall within the accounting realm". The sentence must be amended to state that

the JSE must be involved but not head the process. RC felt very strongly that independence is not an accounting matter and does not have to be headed by an accounting person.

AC stated that the confusion has come in because the process of independence is meant to parallel the process of accounting and auditing but agreed that independence is **not** to be headed up by an accountant.

## **MATTERS ARISING FROM THE MINUTES**

**Feedback on discussion papers:** The raised issues will be resubmitted at the next SSC meeting and the Chair feels confident that, with a little more explanation and understanding, the majority of the issues will be fast-forwarded and resolved.

**Mandate from the SSC:** This is still a “work in progress”. The mandate has not been enunciated in an easily digestible form. Effectively the Working Group is a “sandbox” for the SSC in terms of working with the Codes and aspects of mineral evaluation and resource and reserve reporting. The mandate will be attended to before the next meeting. **Action: The Chair**

AC commented that in the past the main Working Group has always been an open forum where any interested party can join in on discussions. The Working Group is the linkage between industry and the SSC. The Chair agreed that the linkage with the SSC is very important.

The need is for a clear mandate, from the SSC, supporting the linkages and the work of the Working Group. GS suggested that a linkage diagram be compiled showing the relationships between CRIRSCO, the Working Group, the SSC and industry. This model can then be supported by the mandate.

RC reiterated that the mandating process should be understood clearly – the SA representative on CRIRSCO must show how mandates originating in South Africa are taken to CRIRSCO. Furthermore, the Working Group must determine where it sits with regards evaluation and the SAMREC/SAMVAL perspective in terms of the international context, particularly in view of the developments that are taking place at the IASB where evaluations *per se* don't have any recognition or understanding.

### **Parking lot issues:**

**CP/CV accreditation:** This has reached a critical stage in terms of the mechanism with which these are going to be practically implemented i.e. beyond principle level and now at practical implementation level. There have been discussions about whether the SSC should be an accrediting body or whether the Reader's Panel (which also needs its role/mandate clarified) should do some form of accreditation. A further suggestion has been that the JSE itself should do accreditation.

The next SSC meeting should have accreditation as a priority agenda item. A dialogue between the SSC and the Reader's Panel should be facilitated to address this issue. One question that can be addressed is: why does the Reader's Panel not have an appetite to do accreditation?

Debate ensued over whether or not the paper prepared by AdB re accreditation had in fact been circulated to all and commented on. AC was of the opinion that it had. RC stated that the last document he had seen in this regard was that the Reader's Panel would take on the responsibility. At that time he raised the question of where, in terms of the Reader's Panel, do the competent evaluators (CEs) sit? Furthermore, in terms of the Reader's Panel would CPs qualify as a competent evaluators in terms of the definitions? His view is no, they do not.

RC stated that in his opinion the issue of where CPs and CEs actually sit has not yet been clarified. Technically, in terms of SAMVAL requirements, the role of the CE is specialized. CPs cannot sign off on an evaluation report. Suggestions have been made that three CPs on the Reader's Panel are sufficient but RC feels very strongly that this is not suitable.

MMcW stated that the JSE does not want to do accreditation as it is not particularly capable of doing so. It wants to pass this responsibility down to professional societies or the Reader's Panel.

The Chair asked that this item be raised again under item 5 SAMVAL.

AC asked if there has in actual fact been sufficient circulation of the working papers. The Chair stated that regardless of circulation there is a strong perception amongst the various interested parties that sufficient discussion has not been had on the issue. He suggested that at the next Working Group meeting the issue of accreditation of CPs and CVs be tackled in-depth. This suggestion was seconded by MMcW. AC asked what would be the result if an objection is raised post the meeting from someone who was not present to which the Chair stated that it will then be too late to re-raise the issue. The next meeting will be the definitive meeting for discussion of the issue and all interested parties must attend, or at the least send a proxy.

AC asked that all relevant papers be re-circulated with a return receipt to be sent back to the SAIMM to ensure that all interested parties have received the documentation and notification of the meeting in order to be fully prepared with their comments. **Action: The Secretariat – make accreditation the first item on the next agenda.**

**Independence:** This issue will be dealt with at the same meeting which will deal with accreditation. The Chair made it clear that once each of the contentious issues has been dealt with at the meeting they **cannot** be re-opened as the process would have run its course.

AC stated that the issue of independence would be part of a JSE process. The Codes basically state that if one is not an independent issuer then the relationship must be disclosed. This is more or less stated in the JSE requirements at present. The question is: does the Working Group want absolute independence as some exchanges are already doing?

AC further commented that, given that he has done his best as chairperson of two of the discussions papers, after the last meeting he phoned all those who had sent emails commenting about exclusive and inclusive. He asked if there was anybody at the meeting who felt strongly that he, AC, had not canvassed strongly enough with regards to the written paper which has been out now for a year. Debate around this point was suspended and declared "water under the bridge."

RC stated that the issue is not whether there has been debate or discussion but rather the formalization and acceptance of the conclusions of the Working Group.

#### ***Structured process - suggestion***

GS suggested that in future the agenda should be split into two parts – one section where the Group looks at issues that need approval for taking to a higher level. This can be a formal process where issues can be presented, debated and agreed upon for escalation. If no agreement is reached then the issue must go back to the technical group. If the agenda is split very rigidly into a decision-making portion and another portion open to discussion where work for the technical groups can be channeled then better functionality of the Group will be achieved.

RC pointed out that the Group is not a decision-making group – it is a recommendation forum. The only decisions which can be taken at SSC level are on the recommendation of the Group. GS reiterated that a structured approach must be used which does not rely on emails which may or may not be seen by others. AC agreed stating that issues which were ratified a year ago are

still being debated for ratification. MMcW agreed stating that issues were ratified at Group level, escalated to the SSC which then returned the issues with no reasons as to why.

***Ampella Resource statement:***

AC reported that the problem was in the main the SAMREC code where it states that when reporting for mineral resources one must put in preliminary mining and other assumptions – preliminary modifying factors. The problem is in Table 1 it is specifically stated that one does not have to do this and if it is not done an explanation must be given as to why not. In Australia bulk resources are being declared with grades and tonnages without indicating any mining factors. The words “not applicable” have been used in this instance. A comment paper has been sent to Peter Stoker of the AUSIMM and he recognises the problem which was created when the original checklist was compiled. The problem still exists but the AUSIMM is aware of it.

***IASB event:*** A successful event was held.

**ELECTION OF NEW WORKING GROUP CHAIRMAN**

The Chair stated that he has been appointed chairman of the SSC and as it's not prudent to have “people wearing two hats” and new Group chairperson will have to be appointed.

Nominations suggested:

Alistair Moyes.

Dave Young. Mr Young withdrew his nomination due to the fact that he has not been part of previous Group meetings. He did, however, state that he is willing to become an active member of the Group.

Mike McWha – who stated that he is not available.

Alistair Moyes accepted his nomination.

**SAMVAL CODE**

***Historical background***

RC stated that the SAMREC/SAMVAL Codes are seamless and any discussion on one extends to the other.

AC stated that in terms of process SAMVAL was set up as a committee with AMcF as chair in 2001 after the publication of the Extractive Industries Draft Paper on accounting and the IASB in 2000. The committee worked well to the extent that AMcF had identified the IBSC as a representative body to work with and a meeting was held with Trevor Ellis, Bill Roscoe and Mike Lawrence of that entity. The rest of the committee at the time was not in agreement with aligning with IBSC and subsequently AMcF resigned and RC took over the committee.

Over a year or so the SAMVAL Code was compiled. It took into account CIMVAL and VALMIN. The process then stalled and in order to coincide with the second rewrite of the SAMREC Code, SAMVAL was extensively edited and the resultant document is a much shortened version which essentially enshrines the three principle valuation methods for mineral assets. Also included was a table which indicated the preferred methods of valuation.

Close cognisance was taken of the other codes to ensure that they were all, more or less, aligned. It was later agreed that the main SAMREC committee would merge with the SAMVAL process the result of which are the SAMCODES and effectively the SSC is the governing body for both SAMREC and SAMVAL. The SAMVAL committee was thereafter merged with the SAMREC

Working Group as once the Codes were out there was no real need for any further debate. The merging of the two Codes was a world first.

As a consequence of the SAMVAL Code the JSE listing requirements were changed to incorporate the requirement for not only a SAMREC-compliant CPR but also for a SAMVAL-compliant evaluation.

The second round of debate on extractive industries came from the IASB. It's not traditional, other than through historical cost, that the valuation of a mineral asset goes onto the balance sheet and essentially this requirement for review started again about three or four years ago. Riaan Davel is the main link to the IASB. One of the critical issues taking place is that between oil and gas and the minerals industry there is a requirement from the IASB to see whether or not the disclosure guide could be converged for reserves and resources in oil and gas and minerals. Ferdi Camisani is very involved in this potential convergence. Oil and gas and minerals are more or less aligned in terms of the principles and definitions of inferred, indicated and measured; proven and probable reserves.

Recently, with the requirement for debate on valuations and its methodologies, the IASB's extractive industries new paper led to a lot of debate and effectively at the last meeting held at the JSE the result was the preparation of a report-back position statement from South Africa which would then coincide with CRIRSCO which had already prepared an extensive review as to what the positions would be of the minerals industry on the issue of evaluations. One of the points clearly stated in the CRIRSCO response is that CRIRSCO is not responsible for SAMVAL, VALMIN and CIMVAL. CRIRSCO is there to look at the disclosure guide for reserves and resources.

The resulting problem is that in South Africa the JSE meeting was held and answers were arrived at which coincided with the CRIRSCO report-back but of the ten questions that had to be answered there was no consensus with regards to question 3, which looks at whether or not it would be acceptable that fair value and historical cost matrices could be used. The dominant opinion from industry was historical cost should prevail but there is no consensus on this.

The second issue was on question 7 – is more disclosure required (as per extractive industries) to which the answer is yes. However, if more disclosure is agreed upon should the actual valuation number be stated? There is no consensus on this issue.

The response from South Africa, through the SSC and CRIRSCO, has not recognised that there is no consensus on questions 3 and 7. The SAMVAL Code is predicated upon solutions of those two particular questions and it is already accounted for to the extent that the JSE wants an evaluation.

The result is that there must be a new working group created to debate these issues to give a formal response to the SSC. However, if the SSC binds itself to CRIRSCO as the governing body to facilitate consensus between all of the institutes for mining and metallurgy globally and the disclosure guide for mineral resources and it does not want the responsibility for CIMVAL, VALMIN and SAMVAL, where is the reporting channel? Where does the SAMVAL Code responsibility sit? If no home is found then SAMVAL may have to go back to the IBSC.

The issues are:

- A reconstitution of the SAMVAL Code
- Guidance from the SSC as to where it fits in with CRIRSCO and if it doesn't fit with CRIRSCO, which is the representative body for the Code?

Perhaps SAMREC will have to be split from SAMVAL, again.

AMcF added that when the SAMVAL formulation was started attempts were made to align it to IBSC. The international consensus was that the IASB, when they needed to look at the valuation of the assets for putting on the balance sheet, would rely on the IBSC, on international valuation standards and what are generally accepted valuation principles.

VALMIN, CIMVAL, USPAC and SAMVAL are virtually impossible to reconcile. All the codes are different to the extent that even the terminologies and definitions are different. Whilst there is alignment on local codes, outside of South Africa there is none.

International valuation standards are predominantly about generic valuation and valuation practice for the valuation profession aimed mainly at real estate. An international team was put together under the auspices of IBSC to develop an extractive industries guidance note – GN14. This was published, by the IBSC, in 2007. IBSC recently reconstituted itself and is now called the International Valuation Standards Board (IVSB) and with that reconstitution it is now rewriting the entire documentation on valuating. This documentation originally included valuation guidelines on forestry, agriculture and other undertakings but the IVSB has now decided that individual valuations guidance notes are no longer needed as they are, to all intents and purposes, included in the broader volume of the standards. This has now created a void within the IVSB.

GN14 has now been discarded but it included a very comprehensive 70-page technical paper which has now been released. The suggestion now is that SAMVAL be relooked at in conjunction with the documentation of GN14 and the technical report with a view to extracting from GN14 that which give SAMVAL more “teeth” and to draw the Canadians and other valuation professionals into the same context. Local codes will still exist but will be better aligned within a common framework. Once the common framework is done the next step is to house it under the appropriate umbrella.

### ***Comment and discussion***

The feeling that came out of the recent JSE/IASB conference was that the IASB is somewhat dismissive of a valuation code as it applies to a small portion of the mining industry. (This was not a JSE comment). In terms of where the valuation code sits, it is imperative to strengthen it further and then present it to the IASB.

RC commented that SAMVAL, as it stands now, must be revisited in order to get better international alignment with other codes. Critical as well are the deliberations taking place at international level around CRIRSCO and the IASB. Where are the evaluators in this process? The mandate that the South African representatives on CRIRSCO must be clarified because evaluations and the roles of evaluators within CRIRSCO and the IASB have been “lost”. There has been no champion at international level around valuations. The harsh reality is that the accountants have the attitude that there are only two valuation codes so they will do what they want to do anyway.

Where is SAMVAL going? Is it going to become a meaningful entity and to what purpose? Accountants and the accountants’ rules do not govern valuations but if they want to then SAMVAL, CIMVAL and VALMIN will become meaningless. This is the fundamental issue that must be addressed.

GN stated that industry is of the opinion that it can do its own valuations which in truth have no proper standing. The accountants do not take cognisance of any of the valuation codes because they don’t deem them to have any legal standing and there is no umbrella body under which they are housed. If an umbrella body was available to house the codes then the assumption could be that the IASB would consult with that body. With no umbrella body for consultation the accountants will be free to do valuations as they see fit. GN concluded that it is up to the Working

Group to either take the issues forward or just accept whatever standard finally evolves haphazardly both locally and internationally.

MMcW stated that it is necessary to drive the mandate, through this Working Group, for approval by the SSC. AMcF agreed but argued that there must be a clear understanding of the context within which SAMVAL will be rewritten. What has SAMVAL got to do and how will this align to the other codes around the world? IVSB has, to all intents and purposes, abandoned the extractive industries to its own devices. There is already an incident which has taken place in Canada where a valuation has been "railroaded" by the accounting profession to distort valuation issues.

GN stated that there should be a decision from the SSC to determine with CRIRSCO where valuation is going to be housed. If CRIRSCO is not prepared to house valuation then perhaps the professional bodies will again have to be consulted for their opinion.

The Chairman suggested that a group of experienced individuals, well versed in the issues facing valuers, convene to draft a proposal which will then be circulated within the Working Group. The proposal should detail what outcomes the professional wants to see. Thereafter the SSC can decide on the next steps.

AC stated that the mandate for the creation of the SAMVAL Codes was very clear. The merger of SAMREC and SAMVAL enshrines the relationship of responsibility under one Code and under the SSC. Perhaps it would be better to first determine what Australia and Canada are doing with their valuation codes and where these are housed.

If the SSC is willing to escalate a proposal further then the professionals will draft it.

### **The way forward re SAMVAL**

1. Quantify exactly what the issues are
2. Take the issue back to the SCC with a clear problem statement
3. Interested parties form a SAMVAL Working Group which will be a sub working group of the SAMREC SAMVAL Working Group.
4. Decide on a chairman for the Working Group
5. Find a suitable "home" for the valuation code
6. Draft a proposal
7. Report back to the main Working Group and the SSC
8. Get an approved mandate from the SSC
9. The sub Working Group will also look at the rewrite of SAMVAL Code.

### **STATUS OF DISCUSSION PAPERS**

RC stated that the issue of independence must be rethought. It is imperative that there are checks and balances in place to ensure that mining houses are complying with the Codes. Who audits the auditors?

This issue will be discussed and dealt with at the next meeting.

### **GENERAL**

AC asked: to what extent is the SSC broadly consultative? How does it make sure that it has the input of all of the judicial bodies that have to be fully and totally consulted before a decision is made? The constitution of the SSC states that there should be in the region of 15 members on the SSC but at meetings there are often only four people present. AC stated that in his opinion the SSC, as it currently is working, is flawed. Roger Dixon will be asked to consult with the SSC and report back on this issue. **Action: Roger Dixon**

**DATE OF NEXT MEETING**

15 October 2010.

Meeting concluded at 12h00