

**MINUTES OF THE SAMVAL COMMITTEE MEETING**

**HELD ON 22 FEBRUARY 2018 AT 08:00**

**MIDSHAFT BOARDROOM, MINING PRECINCT, CARLOW ROAD**

**Present:**

**K Redman (Chair)**  
**H Bornmann**  
**R Croll**  
**J Luckmann**  
**A Macdonald**  
**T Marshall**  
**M Mullins**  
**P O'Connell**  
**J Odendaal**  
**J Ruddy**  
**G Chunnnett (Skype)**

**Apologies:**

**S Mathuray**  
**M Tlala**  
**A van Zyl**  
**A De Bruyn**

**In Attendance:**

**C Jardine**  
**A Donnelly**  
**SAIMM**  
**Scribe**

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**1. WELCOME**

Ms Redman welcomed all to the first meeting of 2018 and the apologies were noted.

**2. MINUTES OF PREVIOUS MEETING**

The minutes of the meeting held on 30 November 2017 were accepted as a true reflection of proceedings. Mr Mullins requested that the minutes be circulated earlier in future, as this would allow the action items to be dealt with timeously. This was agreed.

**3. KEY ACTION ITEMS AND MATTERS ARISING FROM THE MINUTES**

*Key action items:*

Ms Redman advised that she had circulated the training course presentation to members for comments and suggestions. Ms Jardine had been requested to circulate this to the SAMVAL Committee on the understanding that the presentation would not be circulated outside of the SAMVAL committee and could should not be used without permission.

Ms Redman confirmed that she had tried to contact Mr John Cato of ECSA re MAV registration and suitable categories within ECSA, but was still awaiting a reply.

Mr Bornman reported that he had sent a copy of Mr Croll's comments on parked issues to Mr Macdonald and Ms Redman.

Regarding getting young members involved, Dr Marshall advised that she had drafted the necessary letter.

#### **4. IMVAL**

Ms Redman advised that a new Chairman had been appointed at IMVAL (Mr Steven Gemmell, Australia-based). The IMVAL Terms of Reference and any changes to the template were currently being bedded down. Not many comments had been received on the IMVAL template, so this work would continue throughout the year.

On the issue of Oil and Gas; in terms of IMVAL, SAMOG did not currently sit on the Committee as a member, but as an observer. IMVAL stipulated that each member organisation could only have two people sitting on the member organisation. IMVAL did not accept SAMOG as having a valuation component in their Code. Mr Mullins added that there was some background debate on this. Although SAMOG covered the valuation side as well, IMVAL believed that the clauses therein were not suitable or adequate, so had recommended that SAMOG look at this and, in the interim, sit on the committee as observers. Peter Dekker was invited to sit on that Committee and had attended the first IMVAL meeting about ten days ago. The SAMOG Committee had been reconstituted under Peter Dekker and they would address any valuation issues in the SAMOG Code to ensure that SAMOG could sit as full members of the IMVAL Committee.

It was queried whether the valuation aspects retained by SAMOG had ever been presented to the SAMVAL Committee and, if not, whether this should be done. Ms Redman responded that the SAMOG Code did not discuss valuation and it was for this reason that IMVAL did not believe SAMOG should sit in as members. Mr Mullins added that SAMOG did contain some clauses on valuation that were not acceptable to IMVAL. As SAMOG proceeded through their own review of the Code, they should revert to the SAMVAL Committee for comment and input on the valuation aspect. That would have to go through the SSC and Mr Mullins would take this back to Mr Dekker.

**Action: Matt Mullins**

Ms Redman believed that a representative from SAMVAL should sit on the SAMOG Committee for the duration of these discussions. Mr Bornman volunteered to fulfil this role and this would also be taken up with Mr Dekker.

**Action: Matt Mullins**

#### **5. PARKED ISSUES**

Ms Redman suggested that discussions would be more productive once all members had gone through the parked issues documentation. All members were asked to peruse the document and give recommendations to Mr Bornman. Mr Croll added that a deadline of a month should be given for submission of comments; these comments could then be reviewed by the Parked Issues Committee, with a final document put together for the SAMVAL Committee to discuss at the next meeting. Ms Redman agreed to send the parked issues document, together with a timeline, and then present a final draft for discussion at the May meeting.

**Action: Hannes Bornman/Camielah Jardine/All Members**

Mr Bornman believed that it boiled down to discount rates and price forecast; whether SAMVAL should be prescriptive or not and what guidelines there should be. There was quite a wide range in consensus forecasting. There was a base case, where the CV would recommend a preferred value for the property and this had to be deferred. To protect the investor, who was not always financially or technically savvy on what was being presented, it was felt there would be a base case and a sensitivity analysis around it. This was done in most cases. The question was what a base case was and what the sensitivity analysis should look like.

On the discount rate side, there had been much discussion on whether to use WACC; the spot price of the commodity on the date of the valuation; or the forecast price. There were two

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standpoints on this, i.e. using 5%, 10% or 15% discount rates and choosing and defending one, or taking the WACC of the company as the base case and going 5% or 10% higher or lower.

On the price side, one could use the forecast but, as a reality check, to also use the spot price on that day, to give people a feeling of what it would look like. Mr Duke added there was a subtle difference, i.e. not using the spot price, but showing the price being used in relation to that price.

The key question was whether this should be put into the Code and whether the Code should be prescriptive to the industry regarding the price used. Mr Duke commented that he had been concerned about this aspect and had gone through the document and was satisfied that SAMVAL was not compromised. The Code had to be read carefully and it was incumbent on the CV to take a position, but the guidelines SAMVAL was suggesting would help the CV rationalise and substantiate his forecast if necessary.

Ms Redman advised that the paper recommended that MPVs should be reported at prescribed real discount rates of 5%, 10% and 15% and asked why that was reasonable. She suggested that the principles should be examined; as what may be reasonable in a South African context might not be so in a country experiencing hyper-inflation or even deflation. Mr Duke believed that it was the tone that was important and that the detail could be determined at a later stage. Mr Croll reminded the meeting that the document had been prepared as a position paper by a sub-committee and this was presented to the SAMVAL Committee for debate and comment. That was why he suggested that, once the comments were received, the paper could be discussed in greater depth.

Another comment was that this document was going into the public domain to inform potential investors and SAMVAL should not lose sight of the underlying principle that this was information that the company was putting in the public domain. The CV had been engaged to provide a value and this should be borne in mind. Mr Mullins advised that dictating to an industry what it should do was one thing, but what went out into the public domain was totally different. The CV should be able to justify what position he was taking and be consistent with what the company did. A CP must be able to defend his position if he is asked to do so by his peers.

There was a difference between providing guidelines and being prescriptive. Mr Bornman commented that SAMVAL did not want it to be a "black box", i.e. 5%, 10%, 15%. Mr Duke suggested that the CV should take a view, put the thinking down and test it against that range and reflect it in the document. If the view was way out of range, the CV would need to explain this in comments to the reader of the document. Ms Redman believed problems could arise if ranges were proscribed and that SAMVAL did not want to be too prescriptive. Mr Croll added that a valuation was a value at a specific point in time, based on a specific set of assumptions and that was what the CVs were being report on. Mr Duke advised that when comments were submitted, there should also be a debate on the implications of using different dates and times. Ms Redman agreed and suggested that this be put on the agenda for further debate, i.e. there should be alignment between the effective date and the valuation date.

Ms Redman reiterated that the document would be sent out with a request that comments be returned within a month. A meeting request would be sent out at the same time, asking that comments be sent back to the Secretariat.

**Action: Camielah Jardine**

In response to Mr Macdonald's reminder that there were other parked issues dating back some time, Ms Redman requested him to go through that list and circulate this via Ms Jardine. This would be put on the agenda for discussion at the next SAMVAL meeting in May.

**Action: Camielah Jardine**

Mr Macdonald agreed to meet with Mr Bornman prior to the May SAMVAL meeting, in order to determine which of the parked issues were still material. Ms Jardine agreed to send Mr Bornman a reminder in this regard.

**Action: Camielah Jardine / Andy Macdonald / Hannes Bornman**

## **6. REGISTRATION ISSUES**

Ms Redman advised that she was waiting for Mr John Cato to revert and would then have further discussion. She agreed to continue with those discussions until the May meeting. Mr Mullins advised that he had held a meeting with Ms de Bruyn, who had put forward some suggestions. He asked that a meeting be held between Ms Redman, Ms de Bruyn and himself to pursue these further and agreed to set this up.

**Action: Matt Mullins**

## **7. REAL vs CONSTANT MONEY**

Through the Readers' Panel, Mr Croll and Ms Redman had found that there was confusion around the different meanings of "Real" and "Constant". To this end, Ms Redman had put together a paper of her findings.

Mr Croll advised that this was a fundamental principle of the Code. A number of CPRs that he had viewed referred to Real (Constant) money and these were two totally different terms. From conversations that he had had, it was clear that there was a difference in understanding as to what was Real money and what was Constant money; and how valuations were being done and how they should be reported. He believed the issue was critical enough to require debate in order to come up with a view and put suitable guidelines into the Code. CVs needed to be able to illustrate what methodology had been used in their reporting.

Ms Redman reported that she had read through some financial text books and part of the confusion arose from those books. She had put together a document and invited members to comment and revert with further suggestions on how to improve this. This could then be put on the website for those people who were confused. Mr Macdonald suggested that SAMVAL should align with IFRS. Ms Redman agreed to look at the IVSC document and see if it differed from what she had put together. Mr O'Connell advised that the IOV used Real money. Ms Redman advised that it was incorrect to use the terms interchangeably.

Some discussion followed and it was agreed that Ms Redman would review the document and asked members to send suggestions to Ms Jardine in terms of definitions for "Real", "Current", "Constant" and "Nominal" prior to further debate.

**Action: Kelly Redman**

## **8. GENERAL**

8.1 Mr Patrick O'Connell introduced himself as Director of the South African Institute of Valuers. In response to a question from Mr Mulls, he advised that there were various institutions that offered the necessary studies but that the SAIV was the registration body for property valuers.

8.2 Mr Bornman advised that, when moving from a resource to a reserve, one of the modifying factors was the political environment. The Code spoke about "Governmental" and his question was whether that should be one of the modifying factors. Some discussion followed on modifying factors and it was agreed that Ms Marshall would raise this topic at the SAMREC meeting.

**Action: Tania Marshall**

## **9. DATE OF NEXT MEETING**

Ms Redman thanked all members for their participation and advised that the next meeting would be held on 31 May 2018.

### SUMMARY OF KEY ACTION ITEMS

**1. Matt Mullins**

Discuss valuation aspects retained by SAMOG with Peter Dekker.

**2. Matt Mullins**

Discuss with Peter Dekker the suggestion of having Hannes Bornman sit on the SAMOG Committee

**3. Hannes Bornman/Camielah Jardine/All members**

Hannes Bornman to circulate parked issue document to all members via Camielah Jardine. Members to review and submit their comments to Camielah.

**4. Camielah Jardine**

Send out meeting request with parked issue document (for one month after circulation date).

**5. Andy Macdonald/Camielah Jardine**

Andy Macdonald to review list of historical parked issues and send to Camielah Jardine for circulation to all members. Camielah to put this item on agenda for discussion at next SAMVAL meeting.

**6. Camielah Jardine/Andy Macdonald/Hannes Bornman**

Camielah Jardine to send reminder to Hannes Bornman to set up meeting with Andy Macdonald.

**7. Matt Mullins**

Set up meeting with Kelly Redman and Annelie de Bruyn to discuss suggestions on registration issues

**8. Kelly Redman**

Circulate document in terms of definitions for "Real", "Current", "Constant" and "Nominal" money to all members via Camielah Jardine

**9. Tania Marshall**

Raise the topic of modifying factors (governmental) at SAMREC meeting.