

# Valuation of Assets: Commentary

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## INTRODUCTION

The objective of this paper is to comment on some of the issues raised by Roger Massey-Greene in his paper to the 1993 AMPLA Conference. In particular issues such as the effectiveness of the National Companies and Securities Code R149, and the objectives and problems of regulating the proposed Australian Institute of Mining and Metallurgy draft Code will be discussed. My perspective is that of a corporate user who must rely on expert reports for buy, finance and sell decisions relating to mineral assets.

I think it is important at the outset for us all to understand the point made so clearly by Roger Massey-Greene that valuing mineral assets is a very uncertain and risky business. Mineral assets have many characteristics which make them difficult to value. No two mineral resources are alike; the infinite permutations of characteristics, uncertainties and risks make each resource unique. Inevitably today mineral assets are affected by a whole raft of legislation and regulations including increasing environmental legislation. Additionally the Mabo decision means that the concept of sovereign risk has suddenly assumed a much higher profile in the Australian resource industry.

## THE EFFECTIVENESS OF R149

R149 has had an impact. More expert reports are being included in capital raisings and it has become the practice for experts to state that R149 has

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been followed to arrive at a valuation. However there are areas of R149 which could be improved including:

- provision of adequate technical input;
- economic and market sensitivities;
- relationship between the commissioning entity and the expert/specialist; and
- enforcement.

For example, without recent technical developments the McArthur River mine would not be viable, and financing of the project would not have commenced. Equally, market conditions and timing are critical. Technical input and market knowledge are fundamental to preparing an expert report and arriving at a valuation.

## THE AIM OF THE PROPOSED CODE

The proposed Code aims to keep the same thrust as R149, (that is, placing the onus on the issuer) but additionally it aims to address the above issues and promotes "best practice". I believe it achieves these points reasonably well. However in my view there needs to be a clear distinction between what is Code and therefore enforceable and what are guidelines.

I agree with Roger Massey-Greene that there is a need for professional bodies to educate their members and to self-regulate. If the industry does not self-regulate it will find regulation thrust upon it. Therefore, the AusIMM initiatives in this regard are welcomed. However, the preferred approach should be to increase the reliance on guidelines and reduce the emphasis on legislation. It should be the responsibility of the expert to qualify her or his report if guidelines are assessed as not being appropriate for a particular valuation.

## STANDARDS OF CARE AND PROFESSIONAL CONDUCT

Roger Massey-Greene has raised the issue of proper standards of care and professional conduct, and the topic of accreditation of experts. The Code applies across all disciplines and this alone poses difficulties in setting competency standards for independent experts. We must be careful not to restrict the accreditation process to a rigid set of rules only to have the accreditation process itself administered by other experts. We need to assess whether the length of relevant experience set out in the draft Code is appropriate, whether it allows sufficient competition between experts, or whether it reduces the number of experts from which to choose to a mere handful.

There is no intrinsic reason to unnecessarily restrict the qualifications of the independent expert who in most cases will have to rely on the opinion of a range of specialists for a satisfactory outcome. More than

anything he or she will need to have developed industry judgment and people skills rather than a specific expertise.

## REGULATION

Mr Massey-Greene also raises the issue that various organisations are capable of regulating in their particular areas of expertise but that no one body covers all the necessary areas. He suggests that a panel be formed by members of a number of professional bodies to enforce the Code. I am confident such organisations are capable of selecting an appropriate panel but this is not a big issue. The main issue lies more with the acceptance of the draft Code and its provisions for enforcement.

## VALUATION ISSUES

The exposure draft, like R149, does not clearly define what is meant by fair value; nor should it. At the end of the day value is in the eye of the beholder. It is not uncommon for mining share prices to be double or half their expected net present values over considerable periods. It is interesting to note Roger Massey-Greene's comment that market prices do not generally reflect expert valuations. This is clearly a problem. The Code, in dealing with it, needs to consider the recipients of the valuation report. I would suggest that a large number of buyers of mining shares do so for speculative reasons rather than as a long-term investment.

## CONCLUSION

My general philosophy is that external instrumentalities should interfere as little as possible in the function of the free market. Caveat emptor is still good advice. But I'm prepared to grant that we live in a far more complex world nowadays than the person who first warned "let the buyer beware". So some form of regulation may be necessary, and in my view will become inevitable.

Guidelines are better than prescriptions and the Code should allow discretion to be used; but discretion is a two-edged sword and its unjustified use will, I suggest, lead to increased civil litigation and more stringent regulation. Judgment and appropriate punishment by professional peers is a better deterrent than lengthy judicial procedures with uncertain outcomes. As Roger Massey-Greene pointed out, adverse publicity is possibly the greatest deterrent of all to those who would trade upon the naivety and inexperience of the gullible.