

**Valuation Guidance for Financial Reporting  
Invitation to Comment**



Comments from Douglas B. Silver  
Specialty: Mineral Valuations

LETTER OF COMMENT NO. 56

**Question 1 – Is There A Need For Valuation Guidance Specifically For Financial Reporting?**

In my opinion, there is a strong need for valuation guidance. The mining industry has no standards so there are real estate appraisers doing technical valuations with little or no background or knowledge about the nuances of valuing mineral properties. There are also mining people with no formal valuation experience who think a poorly constructed cash flow model is the answer to every valuation question. I have also observed “appraisals” where the author obviously has no background in appraisal theory or practices, and utilizes questionable methods. Some of these methods are ineffective, self-serving or even worse, designed to stretch the “truth” to get the client the valuation figure they prefer. The lack of global standards may well lead to the same problems experienced by the RTC in the late 1980s when over-priced valuations brought down the markets.

The benefit of establishing standards is that it minimizes the misuse or fraudulent potential of appraisals while establishing methodologies that all can review and understand.

**Question 1a – Should Valuation Guidance Include Conceptual Valuation Guidance, Detailed Implementation Guidance Or A Combination Of Both?**

I agree with the first comment. Guidance has to be flexible enough, however, to accommodate the unique nature of properties and different applications.

I think implementation guidance should include a component which identifies and rules out the use of certain valuation techniques (such as reporting in-situ values, performing pre-tax valuations or predicting the remaining money that must be spent to make a discovery).

I do think that along with guidance, the standards should have short case histories highlighting the proper way to apply an approach and specifically noting common errors or unacceptable approaches made by practitioners.

**Question 1b – What Should Be The Duration Of Any Valuation-Guidance Setting Activities?**

I would prefer that changes in valuation guidance be done periodically (such as once a year or every other year). Otherwise, one has to become a master of change rather than a

master of execution. There will be hundreds, if not thousands, of changes that will be needed as the valuation guidance evolves over time.

By changing guidance only once each year (or every other year), all valuation work conducted during the year will adhere to a common set of standards.

**Question 2 – What Level of Participation Should Existing Appraisal Organizations Have in Establishing Valuation Guidance for Financial Reporting?**

To simplify this very complicated process, you should want the appraisal organizations to serve as a go between the regulators and practitioners. Let them identify the most important issues, study and negotiate preferred approaches and relay their work to a senior regulatory organization (such as yours) for implementation. Furthermore, you should set the number of organizations qualified to make proposals. Otherwise you run the risks of new organizations being set up for specific purposes which may not benefit the majority.

**Question 3 – What Process Should Be Used For Issuing Valuation Guidance For Financial Reporting?**

There is a concern among valuation practitioners that those making the rules do not have adequate personal experience on the subject to provide proper guidance on how to properly apply the art of valuations. Therefore, I believe it is critical that FASB utilize the considerable talents in nationally-recognized organizations. Their contributions can be substantial and prevent unnecessary waste that may occur if FASB thinks some issue is important to regulate but which the marketplace ignores because it is impractical.

FASB has the independence and infrastructure to conduct standard-setting guidance. It does not have the expertise in the specific field of valuations to dictate how we do our work.

Relying on a resource group of valuation professionals makes a lot of sense but will ultimately result in one or two people doing the majority of the work. Put the burden on the valuation \ appraisal societies and you will always have an army of people addressing the issues.

I am unfamiliar with EITF so can offer no comment.

If a separate permanent setter is chosen, you run the risk that his or hers bias will drive international standards. Getting a cross section of multi-national professional bodies is far more effective.

**Question 4 – Should The Process Of Valuation Guidance Be On An International Or National Level?**

To me this issue is a no-brainer. We live in a global society, so standards should be set by the international community. This is particularly true for both the mining and oil & gas industries. Our industries have all ready standardized (more or less) reserve and resource reporting, so extending this effort to valuation is a natural extension of a process all ready underway. The International Valuation Standard Committee taskforce is ideal for this function as they are knowledgeable about the various standards currently being employed in different regions of the world and have been working hard to reconcile the differences in order to create the best international standard possible.

**Other Potential Issues**

I cannot comment on these issues as I am not sufficiently knowledgeable to render an opinion.