

# THE ROLE OF EXPERTS AND EXCHANGES IN NEW MINING LISTINGS

From a Speech delivered by

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The historic origins of the stock exchange are that of a spontaneous marketplace created by independent brokers for the more efficient handling of client orders.

When my great-grandfather started as a stockbroker there was no stock exchange. He had one or two deadly rivals, but the business was done by trying to match one client's order with another client's order — what we today call crossings. Obviously, the reason for this is that any broker prefers two commissions. When it was not possible to match two clients orders, because of the absence of telephones, they would walk down to the local coffee shop in George Street and see if one of their competitors by any chance had an order on the opposite side of the transaction. As the volume of business increased it became necessary to develop more formal trading procedures, and so stock exchanges were created with all their attendant rules and regulations.

Once the secondary market became sufficiently active it became the mechanism for the raising of capital by brokers on behalf of companies and their sponsors. It is in the mining exploration stocks that both the secondary market and the capital raising mechanism of broker and private client remain closest to the historic role of broker and exchange, with all the excitement that entails.

Without that efficient secondary market the capital raising function cannot be performed.

The brokers, therefore, have a commercial self-interest in ensuring that their clients have an efficient and fair secondary market and that companies have an efficient capital raising mechanism. The more capital that can be raised against the issue of more shares the greater the volume and value of the secondary market. We, therefore, seek to please the subscribing investor and the issuing company.

There are some people who believe that the brokers, represented nowadays by the exchange itself, should not concern themselves with rules and regulations either for themselves or their listed companies — such people would accept a financial free-for-all and let the devil take the hindmost. Conversely there are others who believe we should be responsible for all the acts and actions of all our listed stocks. Indeed we often seem to be thought responsible for any misdemeanour of every company, including their commercial misjudgements. Clearly, this cannot be and companies must be responsible for their own behaviour and their own failings.

I don't subscribe to either extreme. Investors and their brokers have to accept risk and, obviously, nowhere more so than in mining and particularly mining exploration. Indeed I suggest we all like risk, provided it receives its due reward. At the same time they are entitled to a fair go for their money and not to be "ripped off" by ravenous vendors and promoters. In addition to that brokers and their clients accept the commercial reality that vendors are also entitled to a fair reward for the risks they have borne. The problem lies in determining what is a "fair reward" before the market in that stock can be established.

During buoyant market conditions there is a very understandable desire by vendors to take advantage of those conditions to sell their interests in mining leases to the public. The problem is to establish a formula and a value which recognises legitimate reward for the vendors and at the same time gives the public subscriber fair value for cash subscribed. This problem is as old as stock exchanges themselves. By one solution or another it is imperative for all of us in this dilemma that public confidence is sustained if the required capital is to be raised. There may be no universally valid solution but it is to the independent, professional mining consultant that the exchanges look for help and guidance in this matter. We rely

† Acknowledgment is made to the Aus.I.M.M. Bulletin of June 1983.

upon you to tell us objectively about the mineral characteristics, the potential economic viability, and is the vendor consideration fair and reasonable both as to the amount of it and the form of it — a very demanding task and a very important responsibility.

Let me admit straightaway that in practice when considering a draft prospectus the exchange itself sometimes has to take a view about the vendor consideration, which may not coincide with the view of the underwriter, who may well be one or more of our own member firms.

An underwriting broker may be just as over-enthusiastic about a prospect as its other promoters and vendors, even though it will probably be the brokers own clients to whom the issue will be offered. In this regard underwriting brokers are subjected to a very real test of commercial objectivity. The exchange, therefore, seeks to have appropriate consultants give an opinion about the prospect and its value at the time the issue is to be made.

Many people hold the view that if people are foolish enough to subscribe without regard to the amount of the vendor consideration then it is their own lookout. But surely there is a lot of relevant information which can be given to them to help them make some assessment of value. To this end, the Australasian Institute of Mining and Metallurgy has just promulgated guidelines,<sup>†</sup> after consultation with the exchanges. I am of the view that even if it is impractical to meet all of those guidelines in every instance, an independent consultant should at least make a statement to that effect so that all subscribers are then on clear notice that even an expert cannot estimate whether the vendor consideration is realistic or not. A strong warning is better than nothing.

I won't discuss the detail of these guidelines now but let me assure you we do support them. Like our own official listing requirements, I regard these guidelines as just that — guides. To me they are a basic minimum so that if other facts and figures are more relevant to our purpose then we hope that, as true and trusted professionals, you would include that additional information in your report or at least bring it to our attention to see whether or not such additional matters should be included in any public offer document. We look to you to tell us what we should seek to have disclosed in order to give the subscriber "a fair go".

To achieve this demanding standard it is clear that the professional consultant's only remuneration must

come from his fees. It is important that you must not have a conflict of interest. Furthermore, for the continuing standard and reputation of yourself and for your profession it must also be seen that you do not have any potential conflict, therefore you must not have any interest in the leases, the plant, or the vendors consideration. Equally you must not have any specially favourable terms for allotment of shares in the listed company.

Equally, having regard to your role to make reports from time to time in the future you should not have and be seen not to have any continuing interest, such as by way of shares, royalties, options or whatever. The consultant must be only that and must be fearless in being outspoken in all of his reports.

Let me not appear to be passing all "the buck" to the practising consultant. The exchanges have to continue to amend their requirements as necessary. Perhaps some requirements need to be relaxed and no doubt others need to be strengthened. For example, I believe the Escrow provisions for shares issued to vendors may have to have more stringent conditions attached in certain cases. Perhaps they should only be released from Escrow in tranches related to the fulfilment of exploration programmes as proposed in the prospectus. That's merely a personal thought and may have no merit. I simply use it to illustrate the need to continue to try to find new ways to be flexible, fair, and commercial — in other words to see that the formula is appropriate, as well as the value.

Another problem we've had is for us to know whether a particular consultant really has the specialist knowledge and practical experience in the type of geology and engineering which is relevant to the proposed company. For example, when diamonds were first discovered in Western Australia we were at a loss to know who could advise us on the validity of reports being submitted to us for potential diamond exploration companies. I intend no reflection on any of your members but we had to assume that only a comparatively few of them would probably have sufficient knowledge and experience of diamonds to be qualified and competent to give the standard of report we need.

Indeed, at that time we quickly had rumours of the likelihood of attempts to "salt" potential diamond leases. We had a problem knowing to whom we could turn to verify that reported diamonds from leases actually were found on those leases. How could we know that they had not been bought at a corner jewellery store?

<sup>†</sup> Refer to following Article

Another current problem which is for us to resolve, not you, is the introduction of potential new companies in mineral exploration where no one on the board has any mining qualifications or experience. The thought of a mining company whose board is comprised only of stockbrokers fills me with apprehension!

The purpose and objective in all this is to ensure that people are encouraged to take risk by providing the capital which is so necessary for natural resources discovery.

If we don't give people a fair go for their money they won't subscribe and we shall all be bereft. Without risk capital very little will be discovered and hence we shall all suffer. Right now we are seeing a reduction in oil exploration due to the weak market in this type of share. When market conditions improve it will be a tragedy if people don't respond, for fear of "being ripped off".

The exchanges have received some criticism for being

"too demanding" in their listing requirements but there are also many people and corporations who have responded favourably to the higher standards we have set. I believe that the higher standard of listing requirements in 1980 as compared with 1970, enabled us to fulfil our very important capital raising role far more effectively and that both explorers and investors were well served by those higher standards. I have always found that honest and honourable vendors, promoters, and corporations have no trouble in complying with high standards.

We are always keen to improve our standards in ways which are realistic both commercially and technically. To do this we need the fullest co-operation from strong professional practitioners.

We look forward to improving our working relationship with your association and your members, with the objective of being able to raise the capital so necessary for the discovery and development of our mineral resources.

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## VALUATION OF MINERAL PROPERTIES

The Council of the Australasian Institute of Mining & Metallurgy has approved Guidelines prepared by the Mineral Industry Consultants Association for the use of Aus.I.M.M. Members when making a Valuation of Vendor interests to meet Stock Exchange Listing requirements for Mining Companies.†  
These are the Guidelines referred to by Mr. F.H. Mullens in the previous article.

### Introduction

Implicit in the action of raising risk capital to further test and evaluate a mineral property is the recognition that its value or worth cannot be determined until the testing and evaluation is completed. The vendor is selling a property of uncertain value and the purchaser is taking some risk that the property will prove to be of value.

The interests of both vendor and the company preparing the prospectus to test and evaluate the property may be best served by offering the vendor a royalty on or a percentage of future profits rather than a large cash consideration from the float. A compromise might be reached where the vendor takes a relatively small initial cash payment; vendor shares with restricted saleability, or other consideration by which the amount payable to the vendor is linked to successful production from the property.

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