

WHAT'S YOUR "TRUE"

PROFESSIONAL AND ETHICS STANDARDS

Gheorghe Badescu FRICS, SCV
IVSC Vice-chairman

WHY STANDARDS

- restructuring world financial architecture
- global professional standards: accounting, banking, auditing, insurance, corporate governance, investments
- value – a building block in market based economy
- real estate - important contributor to financial stability and in macro economic management

STANDARDS SETTERS

■ INTERNATIONAL

- IVSC International Valuation Standards Committee

■ REGIONAL

- TEGoVA The European Group of Valuers Associations
- The Appraisal Foundation
- RICS The Royal Institute of Chartered Surveyors

■ NATIONAL

IVSC - HISTORICAL PERSPECTIVE

- 1981 TIAVSC
- 1985 UN/ECOSOC Roster status
- 1994 name changed to IVSC and “Market Value” definition adopted
- 1998 valuation extended (not only for financial reporting)
- 2005 IVS book covers three property types: real property, personal property, businesses and in future the financial interests

OBJECTIVES and SCOPE

- to facilitate cross-border transactions
- to contribute to the viability of international property markets
- to serve as a professional benchmark, or beacon for Valuers around the world
- to provide Standards of valuation that meet the needs of emerging and newly industrialised countries

BIRTH of a I. V. STANDARD

- best practice not theory
- democratic process in standard setting
- IVSC Standard Board (SB) - representative
 - Europe, America, Asia +9 experts
 - nominated on yearly basis to cover the current issues
- agenda based on valuers and user demands
- transparency of the process

BIRTH of a I. V. STANDARD

- information paper - current status of the issue
- commentary or exposure draft
- exposed to interested parties: IVSC members, users, regulators, international institutions
- IVS, IVA, GN or White Paper prepared and approved by Standard Board
- 3-6 month exposure on IVSC website
- approved by Management Board
- ratified by General Assembly

REAL ESTATE INVESTMENT

- residential real estate “save the world” from a more severe economic downturn recently - increasing house prices means more spending from the extraction of mortgage equity
- real estate - important investment medium for small as well as corporate investors
- premier alternative alongside bonds and shares

VALUE MEASUREMENT

- proper and standardized measurement
- objective and independent manner
- understanding the market participants behavior
- IVS adopted in Latin America (UPAV) and East Asia (AVA) and in many emerging market countries
- a major way to build trust for financial institutions

IVS APPLICABILITY

- IVS tell “what to do” and not “how to do”
- there are general requirements and principles which should be applied because they illustrate the behavior of the market participants
- the departure from some IVS requirements is permitted with the disclosure of the departure and the reason of doing that

IVS APPLICABILITY

- in the mature markets the valuer has access to the sale prices that represents the results of the transaction process
- in the limited markets the valuer should put more emphasis on understanding the buy-sell process and on this base to follow the deductive process of the transaction
- maximize the use of market evidence

MARKET VALUE

- Market Value definition adopted by IVSC, TEGoVA, RICS and others
- based only on market evidence
- is a value-in-exchange
- assessed for highest and best use
- “as is’ at the valuation date

NON-MARKET BASED VALUES

- for financial reporting:
 - value in use
 - depreciated replacement cost
- for lending purposes:
 - Mortgage Lending Value
 - Forced Sale (Liquidation) Value

IVA 2- VALUATION for LENDING

- first published in 1994
- needs revision and to be coordinated with new banking supervision rules – Basel II
- the present text sets priority for Market Value
- the Mortgage Lending Value is not yet introduced

IVSC and BASEL II

- IVSC has responded to draft position papers on lending collateral in relation to property lending
- urging continuously to adopt IVSC Market Value definition
- thank to RICS efforts, European Commission adopted IVSC Market Value definition and TEGoVA Mortgage Lending Value definition

EU on CAPITAL ADEQUACY

- Real estate collateral
 - independent valuer
 - value considered at or less than the market value
 - in those Member States that have rigorous criteria for the assessment of mortgage lending value in statutory or regulatory provisions the property may instead be valued by an independent valuer at or less than mortgage lending value

EU on CAPITAL ADEQUACY

- **Market Value** (as IVS-1) = estimated amount for which the property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudent and without compulsion

EU on CAPITAL ADEQUACY

- **Mortgage Lending Value - MLV** (as EVS-6) means the value of the property as determined by a prudent assessment of the future marketability of the property taking into account long-term sustainable aspects of the property, the normal and local market conditions, the current use and alternative appropriate use of the property. Speculative elements shall not be taken into account.

EU on CAPITAL ADEQUACY

- the Market Value and the Mortgage Lending Value shall be documented in a transparent and clear manner (as IVSC code of conduct requires too)
- the Market Value and the Mortgage Lending Value are alternative options
- MLV has a higher weight in computing the bank capital adequacy

MORTGAGE LENDING VALUE

- Same definition in the proposed EU Directive, IVS 2, RICS Red Book, EVS 6
- Is not a market value
- Is not an exchange value
- Real estate market risk would be assessed by the valuer
- Lending risk will be assessed by the bank
- The separation line is very thin

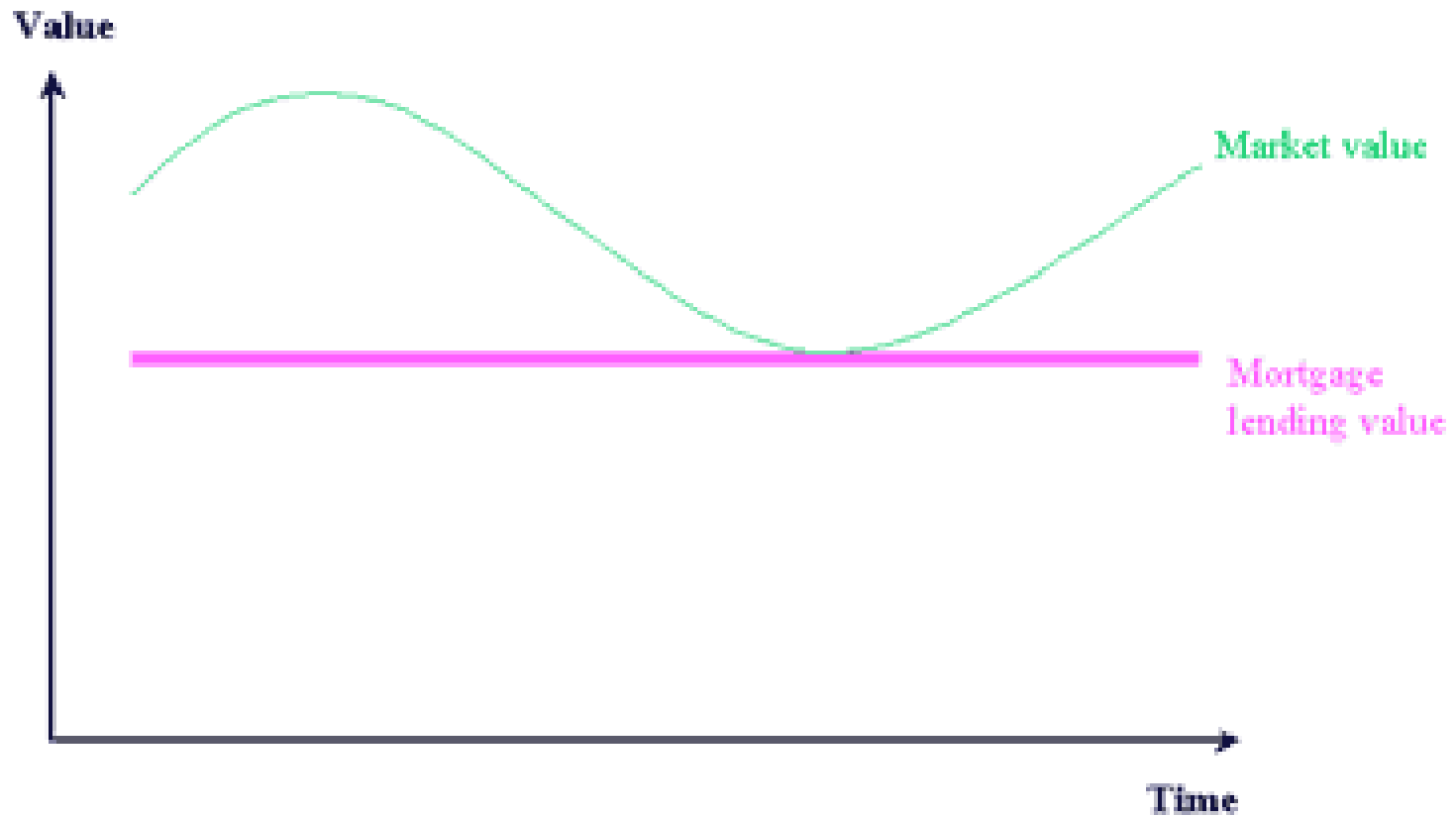
RISKS TO BE ASSESSED

- Market risk
- Location risk
- Property risk
- Partner risk
- Tax and legal risk
- Financing risk
- Project development risk

MLV ESTIMATION

- “VALUE at RISK” approach
- “DUAL PILLAR” principle:
 - a modified Depreciated Replacement Cost
 - a modified Direct Income Capitalisation
- Direct Sales Comparison is not used in order to avoid market volatility
- Carried out by valuers with an appropriate level of competence

Mortgage Lending Value and Market Value in a Market Cycle



VALUER'S CODE of CONDUCT

■ ETHICS

- Integrity
- Conflicts of interest
- Confidentiality
- Impartiality

■ COMPETENCE

- Acceptance of instructions
- Outside assistance
- Efficiency and diligence

VALUER'S CODE of CONDUCT

■ DISCLOSURE

- Not misleading reporting
- Meaningful and accurate
- Assumptions and limiting conditions
- Position of the valuer
- Restriction against the publication
- Departure from standards

EXTERNAL VALUER

- IVSC Code of Conduct: “An external valuer is a valuer who, together with any associates, has no material links with the client, an agent acting on behalf of the client, or the subject of the assignment”

INDEPENDENT VALUER

- Independent from who?
- IVSC Code of Conduct: Independent valuer should meet other independence requirements attached to specific assignment
- RICS: “A valuer who meets the specific requirements of independence, prescribed by law or regulation, for particular valuation task in certain States”