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The actual universe of valuation standards

In the actual context (with issues like as viability of the global markets, cross-border transactions, transparency in financial reporting etc.) it is a common interest for professional valuers, investors, universities, researchers etc. to consider a convergent set of global professional valuation standards. It is also in their best interest to work towards enhancement and refinement of valuation methodologies and applications to be prepared to address valuation issues that are bound to arise in the future.

The paper is a view of actual universe of valuation standards and options for national valuation standard enforcements starting from the operating system named International Valuation Standards (IVS).

1. Introduction

The paper is based on the view of actual statement of valuation standards around the world.

Increased globalisation is the most important force affecting the contemporary world: peoples, cities, companies, markets, economies etc. In this context there are new opportunities (or threats) for businesses and professional services.

Other important issues today are viability of the global markets, cross-border transactions, transparency in financial reporting etc. All of this creates a common interest for professional valuers, investors, universities, researchers etc. to consider a convergent set of global professional valuation standards. It is also in their best interest to work towards enhancement and refinement of valuation methodologies and applications to be prepared to address valuation issues that are bound to arise in the future.

This article is not only a view of actual universe of valuation standards but also a proposal for national valuation standard enforcements starting from the operating system named International Valuation Standards (IVS).

2. What are Valuation Standards and who need them?

Generally it is agree that a standard is a level of quality or achievement, especially one that people generally consider normal or acceptable. Standards are

essential to determining how well a person follows legal, professional and ethical norms.

Dictionaries define standard in various ways. Two well-known dictionary definitions appear below:

"An acknowledged measure of comparison" (The American Heritage Dictionary of the English Language, Fourth Edition).

"A standard is something established by authority, custom or general consent as a model or example; a criterio" (Merriam Webster Dictionary).

Considering the form of appearance a standard may either measure a quantitative number or amount, or a qualitative level of performance. In the valuation area valuers exist in all cultures, even if they are not officially recognized as such. Wherever value exists, an opinion of value also exists. When valuers are more formally organized, recognized methods are developed and subsequently valuation standards arise. These standards could be national or international.

Regarding the usefulness of valuation standards there are four important categories which need valuation standards:

- Valuers which are interested to present the reliability of valuations (in accordance with recognised standards). On the other hand valuation standards represent a means of advertising of the service quality and also a way for protection for new entrants.
- Clients initially consider the quality of a valuation report in accordance with own's objectives: less taxes, finding a good loan etc. At the end they are comfortable and they agree the valuer's opinion if they know that valuers follows valuation standards.
- Authorities are responsible for good economic framework, avoiding frauds (ex privatizations) etc.. Valuation standards could solve a "hot potato" issue; standards are good because it's a chance to blame valuers or the poor standard quality.
- General Public is not so interested in such kind a technical issue. The view is different when something wrong happened (ex. bank failure); in this case they'll ask for the quality of services and create a pressure for valuation standards.

3. Development of Valuation Standards

At the beginning of the modern globalisation process, the International Asset Valuation Standard Committee (TIAVSC) was founded in 1981 with initial membership of 20 countries. In 1984 the first set of standards was launched. Ten years later, the first formal set of valuation standards were published under the re-named TIAVSC or the International Valuation Standard Committee (IVSC).

In Europe in 1977 was founded The European Group Valuers of Fixed Assets (TEGOVOFA) which was replaced in 1992 by EUROVAL and 1997 by The European Group of Valuers Organisations (TeGOVA). In 1981, The European Group

of Valuers Association (TeGOVA) developed European standards and guidance, known as “Blue Book”.

On the other hand there are few important professional institutes which promote valuation standards (RICS, AI, ASA CCIBV etc.)

In United Kingdom, Royal Institute of Chartered Surveyors (RICS) initiated the development of an improved set of standards in the U.K. following the 1974 property crash. RICS was published a new set of standards in 1976 under the name “Guidance Notes on the Valuation of Assets”, a document became known as the “Red Book”.

In USA Uniform Standards of Professional Appraisal practice (USPAP), developed by the Appraisal Standards Board of the Appraisal Foundation.

The most current version of valuation standards are:

- IVSC product: “IVS 2011 Edition”.
- TeGOVA product: “EVS 2009 Edition” (there is expected EVS 2012).
- RICS Product: “RICS 2011 Edition”.

In development of valuation standards there are few important national decisions:

- the Appraisal Foundation and the IVSC have agreed to a project to pursue harmony between USPAP and IVS;
- RICS has adopted IVS 1 and IVA 1 for the Red Book;
- the Australian Property Institute (API) recognizes the IVSs as its core standards (API supplements with additional standards to meet local legal requirements);
- Countries from Latin America recognised international valuation standards;
- Romania and South Africa has adopted IVS as their national valuation standards.

4. What to choose. Why International Valuation Standards must be the operating system for actual valuation standards?

In actual context the major question for valuation profession is: “What to choose? IVS, the “Red Book”, USPAP, EVS (the “Blue Book”) or developing national/regional standards?”.

Actual status of valuation profession and practice is fragmented and not so consistent from global prospective.

Hordjik A., Nilisse P., and Gritter-Koerhuis L. (2011) found few interesting conclusions for European valuation practice: “although market values can be compared across countries, valuation methodologies are country specific and difficult to compare across countries”.

It is difficult to compare values across European countries when regarding applying market value estimation only 50% of analysed countries used market value as the basis and 37% only sometimes.

In a recent research Akiyam Y., M.Suzuki M. (2011) found different valuation “colours” regarding standard situation and IVS implementation. Considering a survey based on 21 countries experience they found in majority of countries exists local standards and:

- there are local standards (67%);
- the valuers follows RICS valuation standards (19%);
- no local standards/ apply international or regional standards IVS/ UPAV (14%).

Considering the issue of implementation of international valuation standards the framework look better. Considering the same sample with 21 countries the results of the question “The status of IVS implementation” was:

- adoption of the IVS for entirely (10%);
- converted or checked the consistency (57%);
- in convergence process (33%).

Property represents one of the major factors of production. Land and building are the most tangible factor of production while goodwill is the most intangible. Valuation combines education, market knowledge and skill to estimate the most probable price on a property as of a specific date. Today this combined skill set needs an international uniform standard as its foundation. Today’s market participants require transparent and uniform application of these skills which can only be achieved with a uniform and robust set of international standards that provide a measurement benchmark.

Over the past twenty-five years, the process of globalisation has gained accelerating momentum as financial and property markets around the world become more and more interconnected.

In the services area, including valuation services, several important changes occurred in the industry:

- the most important for businesses is the internationalization of clients which in some cases replace local clients. In this context the valuation field must embrace a change from local standards to international standards.
- The finance industry has both the funds and incentive to develop and encourage cross-border transactions. Studies confirm that real estate is integrated with financial market (Coakley, 1994). The finance industry demands global standards (accounting, auditing, valuation etc.).
- Local services providers market position has changed and continues to change. Markets are more transparent and efficient due to technology advancement, yet local market expertise and understanding is still a crucial input for these successes.

Valuation professionals will have to focus on competence or “service proper” (knowledge and skills) and service “infrastructure” (technology and organization) as well as a through understanding of local, national and international markets and their interactions.

International valuation standards are a must in a “service proper” area for valuers. As part and parcel of the globalisation process international clients and local clients are demanding one set of international standards.

There are many comments about the relevance of property valuation and the need for international standards. Asked what will happen if international standards are not adopted, Joseph Vella, past chairman of International Valuation

Standard Council (IVSC), said it is already being resolved. "If you would have asked me that same question in 2000, I would have said we have a long way to go" he said. "[But] in five years almost 110 countries have now adopted international financial reporting standards. You've got no choice [but] to adopt these things and make them work. And quite frankly there are more similarities than differences" (Lambert K., 2010).

The pressure for a single set of international valuation standards is coming from a variety of sources and reasons:

- in globalisation process investors insist on a common language in valuation matters;
- the development of international accounting standards and movement in financial reporting from historical or modified historical cost to fair value or market value;
- the need to measure market value for as part of the collateral for lending purposes;
- the need to measure property, portfolio and company management performance;
- the trend toward the privatisation of state companies and how to measure value consistently;
- increased pressure to measure the underlying value of public sector assets;
- emerging markets and developing economies with no established profession in valuation are interested in developing and promoting a set of professional valuation standards. Developed economies investments in these upcoming economies demand a standardized benchmark for valuations.

5. The architecture of the last International Valuation Standards – 2011

International valuation standards has two major goals:

- develop and promulgate valuation Standards for worldwide acceptance;
- harmonize Standards among the world's states.

The structure of IVS 2011 followed those goals. IVS 2011 is divided in five major sections.

The first section is named IVS Definitions and contains words and phrases that have a specific meaning in the context of standards and that appear in more than one standard.

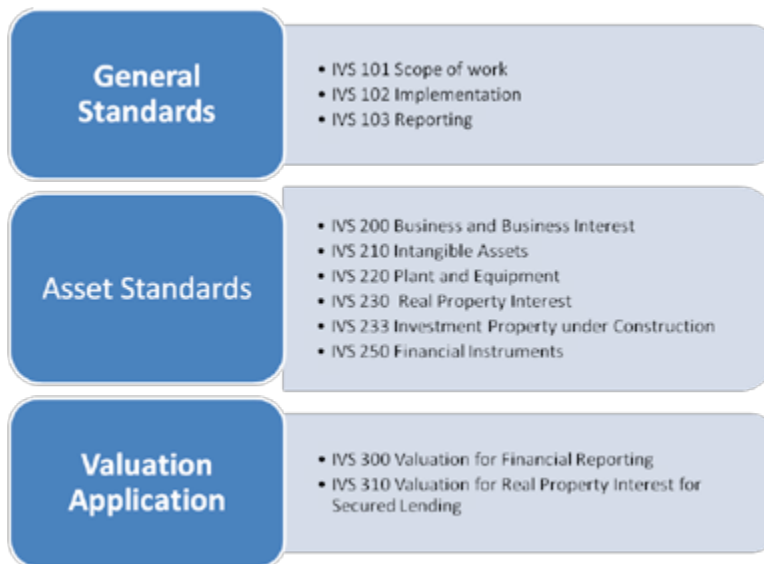
The second section presents IVS Framework and contains generally accepted valuation concepts and principles upon which IVS are based.

The third section is General Standards and have general application for all assets types and valuation purposes.

Section four is Asset Standard and consists of a standard and a commentary and include illustrations of how the principles are generally applied to the particular assets class: companies, intangible assets, plant and equipment, real property interest, investment property under construction, financial instruments.

The last section is Valuation Application realised for common purposes for which valuations are required: Valuation for Financial Reporting Valuation and Valuation for Real Property Interest for Secured Lending.

Figure 1. The core structure of IVS 2011.



6. How to manage the actual status of valuation standards. A map for valuers.

The actual status of professional valuation standards could make a confusion between valuer's community (Badescu G., 2011).

For helping the practical decisions and activities will built a useful map for professional valuers considering five different inputs with five different inputs:

1. **IVS 2007.**
2. **IVS 2011.**
3. *TIP 2011/2012 (Technical Information Paper, produced by IVSC).*
4. **EVS 2009.**
5. **LOCAL STANDARDS (ANEVAR for Romania).**

Our map considers a matrix with four lines and three columns. The lines represent the most important component of the valuation standards:

- The General Standards;
- Valuation Application Standard;
- Assets's Standard;
- Code of conduct.

The columns are in accordance with a computer functioning system:

- Operating system/ General Elements;
- Application issues;
- Guidance Note/ Practical Issues.

Table 1. The map of actual Valuation Standards.

	Operating system/ General Elements	Application Issues	Guidance Note/ Practical Issues
General Standards	IVS Definitions	Valuation Process – EVS 4	<i>Market participants</i>
	IVS Framework	<i>Valuation Approaches</i>	<i>Highest and Best Use (HABU)</i>
	<i>Market Value - IVS 1</i>	<i>Depreciated replacement cost – TIP2</i>	<i>Valuation Uncertainty</i>
	<i>Other Bases than Market Value - IVS2</i>	<i>DCF Analysis – TIP 1</i>	<i>Glossary of Terms</i>
	Scope of Work – 101	<i>Reviewing Valuation – GN11</i>	
	Implementation/ Valuation Process – IVS 102		
Valuation Application Standard	Valuation reporting – IVS 103		
	<i>Property types - IVS framework 2007</i>		
	Valuation for financial reporting – IVS 300	<i>Fairness Opinion</i>	VALUATION FOR STOCK EXCHANGE (IPO, SQUEEZE OUT ETC.)
	Valuation of Real Property Interest for secured lending- IVS 310	<i>Mass appraisal –GN 13</i>	VALUATION FOR SECURE LENDING
	<i>Valuation of public sector assets - IVA3</i>	<i>Lease Interest – GN 2</i>	
		<i>Investment portfolio valuation</i>	
Asset’s Standards	Businesses and business interest – IVS 200	<i>Investment portfolio valuation</i>	GUIDE FOR BUSINESS VALUATION, BUSINESS HOTEL VALUATION, GAS STATION VALUATION
	Intangible assets – IVS 210	<i>Intangible assets valuation methodologies</i>	GUIDE FOR INTANGIBLE ASSETS VALUATION
	Plant and equipment – IVS 220		GUIDE FOR PLANT AND EQUIPMENT VALUATION
	Real Property Interests– IVS 230	Forestry Valuation EVS project	REAL PROPERTY IDENTIFICATION
		<i>Valuation of agricultural property - GN 10</i>	

(Continued)

	Operating system/ General Elements	Application Issues	Guidance Note/ Practical Issues
		<i>Valuation of properties in extractive industries – GN 14</i>	
	Investment Property Under Construction– IVS 233		
	Financial Instruments– IVS 250	<i>Illiquidity Discount</i>	
Code of conduct	<i>The qualification of the valuer</i>	The qualified valuer – EVS 3 <i>Relation auditor – valuer</i> Minimum Education Requirements – EVS	

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