

Associazione Società di Valutazioni Immobiliari per le Banche

## Response to public consultation

# EXPOSURE DRAFT OF THE PROPOSED NEW INTERNATIONAL VALUATION STANDARDS

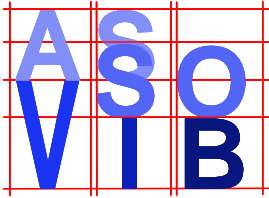
September 2<sup>nd</sup>, 2010

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Soci Fondatori:





As representatives of ASSOVIB (the Italian “Association of Property Valuation Companies for Banks”) we appreciate the opportunity to respond on the Exposure Draft, as we believe that the International Valuation Standards have been a key factor over the past ten years in driving the Italian property market towards greater transparency in the field of valuation, especially for secured lending. ASSOVIB is the association of the biggest Italian Valuation Companies which provide valuation services to banks who grant mortgages based on real estate collateral. The purposes of the Association are promoting professional valuation culture within the context of mortgage granting and elevating the quality of services offered to Banks by establishing a code of conduct and carrying out, alongside government bodies and other stakeholders, initiatives focused on scientific and technical issues within the valuation field.

Therefore, considering ASSOVIB’s specific area of work, this response will be focused on aspects of the standard related only to real estate valuation for secured lending purposes.

We identified your objectives in changing quite radically the standard from the previous edition, as clearly stated in the Chairman’s Overview:

- The prime beneficiaries of standards are no longer the valuers but those who rely on valuation
- To draft a set of standards that are intended to be principles based, setting high level requirements that are for global application across a wide range of valuation practice

Considering these objectives, we certainly understand the re-organization of content and the elimination of repetition as well as the ongoing effort to make sure the Standard does not become a valuation manual. We noted that virtually all guidance, applicability and valuation methodology have been removed.

As a consequence, the standard is now of such a high level to be widely interpreted from country to country and from one valuation field to another.

We understand that some of the guidance and methodology will be treated in separate Technical Information Papers.

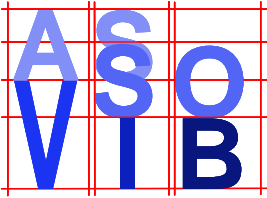
Since scope and time frames of the Technical Papers are not yet stated, we would like to ask the IVSB if we should expect the Papers to cover all removed issues or if this will imply a shift from international to national standards.

If the IVSB is considering to include these notions into a future Technical Paper, we hope that the Paper will have the same “authority” of the Standard and will be recognized on an international level as an example of best practice to be followed and incorporated into national standards as much and as closely as possible.

In the case removed issues are not addressed at an international level, the national standards would no longer be “complementary and mutually supportive” to the IVS but would have to reformulate much of the guidance that is no longer in the Exposure Draft.

This is particularly of interest to ASSOVIB, considering that the Italian market of property valuation for banks is currently moving toward a higher degree of self-regulation, primarily based on the guidance contained in the IVS 2007.

In any event, we believe that IVS should contain some additional principles, some elements of guidance and a high level description of valuation processes across the various fields of application, to ensure the transparency and disclosure highlighted in the Chairman’s overview.



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Here below we have taken the liberty to describe the major principles of the valuation process for mortgage lending while answering a few of the questions from the Overview document.

7. Paragraph 6 of the draft sets out a proposed hierarchy of approaches which indicates that the direct market comparison approach is generally to be preferred where there are observable prices for similar assets available at the valuation date.

**Do you agree with this hierarchy and do you consider it helpful? If not explain if you would prefer to see no reference to a hierarchy or would prefer an alternative hierarchy.**

*Answer:*

Yes, we agree with the inclusion of the hierarchy, especially in the field of valuation for residential properties, because of the fundamental importance of the Direct Market Comparison Approach in that area.

We also appreciated the fact that an asset being valued can be compared with similar items that have been not only transacted in the market but also listed or offered for sale.

This is particularly true in a country like Italy, where the valuation of property is in a process of developing self-regulation and having a hierarchy defined within the IVS is important.

For commercial properties, income and financial approaches should be considered equally important, as applicable.

8. In the current edition of IVS, the term “Sales Comparison Approach” is used to describe the process of estimating value by comparison with the prices of identical or similar assets in the market. The Board received representations that this term was too restrictive as it seemed to preclude market evidence that was not related to an actual sale. Some advocate the use of the term “Market Approach”; however, others find this confusing as both the income and cost approaches can use market based inputs. The Board also received evidence that some believed that only a “market approach” could be validly used to determine market value. After deliberation the Board has proposed the term “Direct Market Comparison Approach” in this edition of the standards.

**Do you find this change of terminology to be helpful? If not please explain what alternative you would prefer and why.**

*Answer:*

Yes, we agree with the change of the terminology.

15. This proposed standard is significantly less prescriptive than the equivalent standard IVS 3 in the current IVS. The proposed changes reflect the general recommendation of the Critical Review Group that the standards should contain less prescription and focus on principles. It also reflects the need to ensure that these standards can be applied to a wider sector of asset classes than previously.

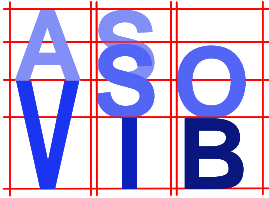
**Do you agree with the changes that have been made? If not, please explain what provisions of the current IVS3 you believe should be carried forward into the new standard.**

*Answer:*

As mentioned previously, we feel your course of action is in line with your stated objectives.

However, we believe that some important concepts are now missing within the principles themselves.

Also, within the principles covered by the standards, we believe the IVSB should consider re-



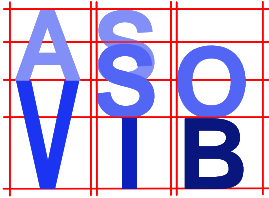
introducing some elements of guidance to ensure the transparency and disclosure highlighted in the Chairman's overview.

In particular, we consider fundamental that the IVS include the following provisions:

- IVS 101 paragraph 1  
The current wording states that "... the price paid for goods or services may be different than the value which might be ascribed to the goods or services by others".  
We believe the word "value" should only be used in conjunction with the valuer, therefore we suggest changing the word to "worth"
- IVS 103 paragraph 7. a  
The current wording states that "the estimated amount is the best price reasonably obtainable by the seller". Previous wording (IVS1 – 3.2.1 – IVS 2007) stated "is the best price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer". We feel that removing from the definition the protection for the buyer could inflate valuation or could push the valuer to make "unrealistic assumptions about market conditions or assume a level of market value above that which is reasonably obtainable" (IVS1 – 3.2.4 – IVS 2007, which has been removed as well in the Exposure Draft).  
We suggest to remove the wording "It is the best price reasonably obtainable by the seller" e reintroduce the recommendation for the valuer not to make "unrealistic assumptions about market conditions or assume a level of market value above that which is reasonably obtainable".
- We believe it should be re-introduced: "Each valuation report shall include a description of the information and data examined, the market analyses performed, the valuation approaches and procedures followed, and the reasoning that supports the analyses, opinions, and conclusions in the report" (IVS3 - 5.1.8 – IVS 2007)  
This level of detail has direct influence on the objectivity and comprehensibility of the report.
- We do not agree with a portion of paragraph 14 303.01 ("it is usual to adopt a suitable unit of comparison. Units of comparison that are commonly used include analyzing sales price by calculating the price per square meter") that should be deleted. We believe this is correct only when the market is adequately homogeneous so that each property interest being compared to the subject property has the same elements so that the only defining characteristics is the surface area. This is not applicable to property markets (like Italy) that are particularly diverse and present wide ranges of characteristics.

IVS 303.01 paragraph 14 (Direct Market Comparison Approach) should contain the following indications in order to preserve the transparency and the objective interpretation of the valuation reports and the quality of comparable data used in the direct market comparison approach:

"To make direct comparisons between a comparable sale property and the subject property, a valuer shall consider possible adjustments based on differences in the elements



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of comparison. Adjustments can narrow the differences between each comparable and the subject. Valuers apply quantitative and/or qualitative methods to analyze differences and estimate adjustments.” (GN1 - 5.11.5 - IVS 2007)

Paragraph 14 (Direct Market Comparison Approach) becomes:

“In order to evaluate the property, the subject of the valuation is compared with the price of other property interests that have been recently exchanged or that may be currently available in the market.

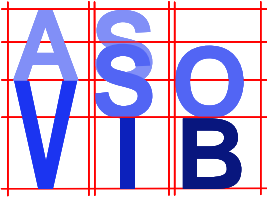
To make direct comparisons between a comparable property and the subject property, a valuer shall consider possible adjustments based on differences in the elements of comparison. Adjustments can narrow the differences between each comparable and the subject. Valuers apply quantitative and/or qualitative methods to analyze differences and estimate adjustments. Each unit of comparison is only useful when it is consistently selected and applied to the subject property and the comparable properties in each analysis and is one used by participants in the relevant market.”

- IVS 303.01 paragraph 15 should be deleted because we do not believe that it is generally applicable as a principle
- We consider fundamental (especially in the field of valuation for secured lending) a provision for valuation reviewing which addresses several levels of critical analysis of the valuation report, such as:
  - Administrative (compliance) Review
  - Desk Review
  - Field Review
  - Technical Review
  - Valuation Review(for the descriptions see GN11 – IVS 2007)

If your intent is to describe those level of Review in the Technical papers, we believe they should at list be listed here to explicit the importance on the review in the process.

Also there are a few sections we do not fully agree with:

- the variation found in the exposure draft, IVS 202.01 “Valuation Reporting” point 15, sub-point 5 “any impact of foreseeable events during the period of the loan on the value of the security”. We believe that the original version, “at the date of valuation”, is more in line with the definition of market value (being a value at a precise point in time, and not carried out over the course of the loan). However, the valuation shall consider any foreseeable events that would negatively impact the value of the asset.
- IVS 201.01 paragraph 16: the wording does not take into consideration markets/countries where sales prices agreed are not readily available, easily accessible and fully reliable. We do



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not believe that results of these enquiries should be referred to in the report since they can derive from unofficial sources.

When the loan is to support a purchase of a property interest, enquiries to retrieve the sales price should be made periodically as part of the audit process to ensure quality and accuracy of the valuation produced.

- IVS 102 paragraph 8

We do not agree with the last sentence “Where alternative approaches and methods are used, these should be weighed and reconciled into a final value estimate”.

In alternative we propose: “In the case of a plurality of scenarios (e.g. different potential buyers, ...), it is correct to carry out valuations using different approaches and methods which might determine different estimated values. The valuer must indicate the most probable one, including a percentage of success of each value, according to the scenario and the market analyzed.”

16. The standards in the 200 series relate to valuations for specific purposes. They provide guidance on the background for the valuation requirement before setting out specific matters that should be reflected or considered when applying the principles in the General Standards. Some consider that the fundamental principles of valuation should remain unchanged regardless of the purpose for which it is being prepared and therefore these application standards are superfluous. Others consider that it is important that valuation standards highlight factors that could be relevant to determining the appropriate valuation hypothesis for different purposes, and to set down criteria to ensure that reports contain the appropriate information.

**Which view do you support? If you consider that future IVS should contain application standards, do you consider that the degree of detail of those in the draft is appropriate and help the better understanding of the valuation requirements?**

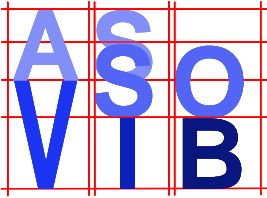
*Answer:*

We consider very important that valuation standards highlight factors that could be relevant to determining the appropriate valuation hypothesis and process followed, and to set down criteria to ensure that reports contain the appropriate information.

The Exposure Draft should also describe additional principles related to the process of valuation which safeguard the transparency, independence and objectivity of valuation itself.

Concerning Valuation for Secured Lending, IVS 202.01, we believe there should be a paragraph dedicated to the valuation process, highlighting the following principles that must be part of the process:

- Selection of valuers based on defined criteria
- Valuer training based on international and national regulations and best practices
- Ongoing assessment of competence, experience, and life-long learning through a documented management system
- the assignment should be completely independent from the credit decision making process, the commercial process, and the credit monitoring process, ensuring that all personal conflicts of interested are avoided



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- There should be a critical analysis of all valuation reports (quality control) which is in line with the prescriptions of a Desk Review (GN11 – 3.2 – IVS 2007), carried out by a valuer different from the one that performed the valuation. This critical analysis is an integral part of the process and must be carried out before the valuation can be used to grant credit secured by collateral. If the valuation is completed by a valuation firm, it is responsibility of the firm to carry out those quality controls on each valuation. If the valuation is completed by an individual valuer, it is responsibility of the lender using a process independent from the credit and the commercial line.

Considering the fact that in the field of valuation for secured lending most banks are shifting towards outsourcing the process to valuation firms, it will be the responsibility of the valuation firms to manage the process guaranteeing all principles stated above.

IVS 202.01 paragraph 2 (a) should add the following:

Lenders should require a valuation that is independent of the borrower and independent of the lender. If the bank relies on a valuation firm, the independence of the valuation from the borrower and the lender will be guaranteed by an independent assignment process.

In the event the bank relies on individual valuers, it will be the responsibility of the bank to ensure that the process is carried out according to these principles and independently from the credit decision making process, the commercial process, and the credit monitoring process, ensuring that all personal conflicts of interest are avoided.

