

IVSC TAB Meeting Update August 2023

Items shown in bold italics should include links to the relevant documents

This IVSC Update highlights preliminary decisions of the IVSC Tangible Assets Board (Board). Projects affected by these decisions can be found on the ***IVSC Publication Schedule***. The Board's final decisions on IVS® Standards and Amendments as set out in the ***IVSC Standards Review Board Due Process and Working Procedures***.

The Board met remotely on 9 August 2023. The topics in order of Discussion were:

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(BVB Feedback on Valuation of assets in a listed versus unlisted environment Draft, 2023.08.02 Valuation of assets in a listed v unlisted environment DP_SG_WB_CM_NK and 2023.08.02 Listed vs unlisted - Catalina Miranda BVB Feedback.)

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- IVS 300 Consultation Responses - Alexander Aronsohn/Brendan Gallagher
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- Consultation Response Review Process – Kim Hildebrandt

Administration and Processes

- TAB and SRB Working Groups
(*Standing item only, see 2023.08.03. IVSC TAB Working Groups and 2023.08.03. IVSC SRB Working Groups*)
- IVS Agenda Consultation 2024 and Key Topics for 2024 Agenda Consultation
(*Standing item only, see 023.08.03. Proposed Agenda Consultation Topics*)
- Stakeholder Engagement
- AOB

The Board was asked if there were any conflicts of interest in relation to the proposed topics and no conflicts were declared.

Administration

IVSC TAB Meeting Update July 2023 (IVSC TAB Meeting Update July 2023)

The Board reviewed the IVSC meeting update and agreed that it was an accurate report of the meeting. There were no further revisions suggested and the meeting update was approved by the TAB.

Next steps

No action required.

IVSC Publications Update (23.08.03. IVSC Publication Schedule)

The Board met on the 9th of August 2023 and discussed the proposed timetables for some of its forthcoming consultation documents. The Board felt that the publication dates might vary depending on the responses received from the IVS Exposure Draft consultation.

Next steps

No action required.

Prudential Value Correspondence (Brad Waga, Joao Garcia Barreto and Neil Cosby Emails on Prudential Value)

The Technical Director advised that the following article on Prudential Value had been published in the IVSC July Enews; -

Prudential Property Value: Our Efforts to Ensure Transparency and Consistency

Drawing the conclusions from the global financial crisis, the Basel Committee on Banking Supervision (BCBS) published in December 2017 new requirements for the valuation of real estate for lending purposes in the context of the so-called 'Standardised Credit Risk Assessment Approach' (SCRA). It reads:

The valuation must be appraised independently using prudently conservative valuation criteria. To ensure that the value of the property is appraised in a prudently conservative manner, the valuation must exclude expectations of price increases and must be adjusted to take into account the potential for the

current market price to be significantly above the value that would be sustainable over the life of the loan.

These requirements are part of a new set of international banking supervisory rules known as 'Basel III Framework' and apply since 1 January 2023 to large and internationally active banks. All 28 member countries of the BCBS committed to enforce these rules also on a wider set of banks within their jurisdictions.

In the European Union and within the UK, the legislators have decided to transpose the new SCRA valuation rules into law by amending the European Capital Requirements Regulation (CRR) for banks. The new Article 229 CRR reads:

1. b) the value is appraised using prudently conservative valuation criteria which meet all of the following requirements:

(i) the value excludes expectations on price increases;

(ii) the value is adjusted to take into account the potential for the current market price to be significantly above the value that would be sustainable over the life of the loan;

1. c) the value is not higher than a market value for the immovable property where such market value can be determined.

There is almost no guidance yet from a real estate perspective for the determination of this new 'Prudential Property Value' from the BCBS, nor from European authorities.

The European Banking Authority (EBA) provided a first indication through its Policy Advice of 2 August 2019 that the Basel III requirements:

- *Will no longer allow institutions to solely apply a Market Value concept.*
- *Would require additional specifications to clarify how a current use of either Market Value or Mortgage Lending Value could be included in the definition of property value.*
- *Would allow institutions currently using either the Market Value or Mortgage Lending Value concept to continue to do so, provided that the values used as input parameters are adjusted and exclude expectations of price increases.*

The valuation profession concluded after a first assessment that Market Value alone, as defined under IVS, will indeed no longer be permissible for the valuation of real estate for lending purposes under the new BCBS definition. It is understood that Prudential Value is a collateral value concept aimed at securing a stable collateral

position of a credit institution (mortgage lender) over the longer term, i.e. throughout economic cycles and property market volatilities.

The EU and the Prudential Regulatory Authority in the UK are planning to apply the 'Basel III Framework' including Prudential Value to immovable property from the 1st of January 2025 but there is currently no agreed interpretation of the definition, or an agreed valuation methodology for providing a Prudential Value in a real estate context.

The IVSC welcomes the opportunity to engage with relevant authorities and stakeholders in regard to the concept of Prudential Value. As with any new basis of value, it is concerned that if it is enacted prior to an agreed interpretation and approach being agreed across all markets, then these deficiencies will likely lead to a lack of transparency and consistency in providing such valuations. These challenges will likely be amplified in markets where there are data challenges.

As a result, the IVSC has engaged with various regulatory authorities on the matter and have received feedback from a number of valuation stakeholders. The IVSC will continue to closely monitor developments around the introduction of Prudential Value and will keep our stakeholders informed of any future developments.

Please send any comments or feedback in relation to this issue to IVSC Standards Director, Alexander Aronsohn: aaronsohn@ivsc.org.

The Board were further advised that the IVSC had received a number of positive responses on this issue, none of which required further action at this point in time.

Next steps

The Board and IVS TAB Prudential Value working group will continue to discuss and closely monitor developments around the introduction of Prudential Value and will keep stakeholders informed of any future developments.

Listed v Unlisted Update (BVB Feedback on Valuation of assets in a listed versus unlisted environment Draft, 2023.08.02 Valuation of assets in a listed v unlisted environment DP SG WB CM NK and 2023.08.02 Listed vs unlisted - Catalina Miranda BVB Feedback.)

The Board was advised that the TAB had received a number of comments from the BVB Board in relation to the valuation of assets in a listed vs unlisted value.

Th Board was further advised that the BVB felt that in the case of assets in a listed environment price did always equate to Market Value.

The Board were also advised that though the definition for Market Values refers to the “*estimated amount*” the commentary for the interpretation of the definition of market Value made multiple references to price.

Next steps

The Board advised that though this was a key issue the IVSC SRB Listed vs Unlisted working group was going on sabbatical while the SRB focussed on revisions to the IVS General Standards. While the working group is on sabbatical the TAB Chair and Technical Director understand both the steps and appetite to revise the existing Market Value commentary. It should be noted that the current Market Value definition and commentary was agreed and adopted by IVSC members in a meeting over twenty years ago as part of a process to harmonise valuation practices across all markets and to aid consistent global reporting.

Global Insights & Markets Update

Around the World – Topic, Site Inspections & the role of IVS

The Board was advised that as part of the IVS Exposure Draft consultation the IVSC had received a number of responses in relation to Market Value and inspection and whether inspection, particularly in relation to real estate, was a mandatory requirement for producing an IVS compliant valuation.

The Board was further advised that the queries had come from member organisations such as the API, who had temporarily negated the need for inspections during the corona virus crisis.

The Board was also advised that this topic also related to the use of AVMs and IVS compliance as an AVM is unable to inspect property.

The Technical Director advised that IVS 102 Investigations and Compliance currently stated the following in relation to inspections;

20.2 Sufficient evidence must be assembled by means such as inspection, inquiry, computation and analysis to ensure that the valuation is properly supported. When determining the extent of evidence necessary, professional judgement is required to ensure the information to be obtained is adequate for the purpose of the valuation.

20.3. Limits may be agreed on the extent of the valuer’s investigations. Any such limits must be noted in the scope of work. However, IVS 105 Valuation Approaches and

Methods, para 10.7 requires valuers to perform sufficient analysis to evaluate all inputs and assumptions and their appropriateness for the valuation purpose. If limitations on investigations are so substantial that the valuer cannot sufficiently evaluate the inputs and assumptions, the valuation engagement must not state that it has been performed in compliance with IVS.

In order to further explore this important issue KH asked the members of the TAB to provide a short summary on how inspections were viewed within their markets and whether it was mandatory to inspect real estate or plant and equipment.

- *North America – James Gavin, Brendan Gallagher, Kyle TenHuisen*
 - In USA inspection is not mandatory and it is more of a judgement issue. The valuer must use his professional judgement and decide whether an inspection is necessary to provide a credible valuation.
 - Under USPAP it is also possible to provide restricted appraisals.
 - JG advised that particularly in the case of a large portfolio a mandatory requirement to inspect would not be practical and also would be commercially difficult as it would partly depend on what a client is willing to pay.
 - BG advised that for P and E valuation this was a problematic area as sometimes it is not possible to inspect the asset (e.g., pipelines or a 100,000 cars)
 - BG added that sometimes a random sample is inspected for financial reporting purposes.
 - KT added that his experience was similar to BG and not only were there different levels of inspection but also the requirement to inspect depended on the asset, the scope of work and could vary on a case-by-case basis.

- *South America – Eduardo Rottman*
 - ER advised that under Brazilian standards inspection was seen as a mandatory requirement.
 - ER further advised that there was no clarity in relation to the level of inspection required and that this was still open to interpretation.

- *Asia/Oceania – CK Lau, Sandip Kumar Deb, Kim Hildebrandt*
 - SKD advised that in India inspection is mandatory.
 - SKD added that in some instances for regular purpose valuations the bank may state that the valuer doesn't need to inspect and desktop valuation is sufficient.

- SKD further advised that for insolvency valuations an inspection is seen as mandatory and if an inspection is not carried out then the valuation is not seen to be IVS compliant.
- *Europe – Ludmila Simonova, Becky Gaughan*
 - BG advised that in Europe there were a number of different approaches and in general CBRE’s Europe wide policy was where possible everything should be inspected.
 - BG further advised that in the case of portfolio valuation a percentage of the portfolio was normally inspected on an annual basis.
 - BG also advised that for larger instructions inspections were considered on a case by case basis.
 - BG added that the type of inspection could vary on a country by country basis for example in France inspections comprised of a number of photos but no notes.
 - LS advised that in Ukraine inspection is mandatory and the valuer should also try and inspect the comparables, if possible.
- *Middle East – Paakow Winful, Ron Cohen-Seban*
 - PW advised that it partly depended on the intent of the inspection and whether an inspection was required to gather data and inputs for a robust valuation.
 - PW added that in some instances this could comprise an asset questionnaire.
 - PW further added that TAQEEM are moving from mandatory inspection to ensuring that the valuation is done properly.
 - RC advised that in Israel inspections are mandatory under Israeli standards and the only exception is in relation to desktop valuations.

Next steps

Further to discussion the TAB felt that it would be helpful to produce a perspective paper on inspection exploring but not limited to the following matters; -

What is an inspection (ie drones)?

Can an inspection can be carried out by a specialist?

Is an inspection mandatory for Market Value?

AA to set up a working group post the AGM with BG, JG and SKD to consider drafting a perspective paper on inspection and to engage the market on this issue.

Standard Setting

IVS General Standards Consultation Responses (2023.08.04. IVS Exposure Draft General Standards Responses and 2023.08.04. IVS Exposure Draft General Standards Responses)

The Board was advised that the IVS Exposure Draft consultation closed on the 28th of July 2023.

The Board was further advised that the IVSC had received one hundred and five responses so far and were expecting a further ten responses as a number of respondents had been granted a two week extension to finalise their internal processes prior to submitting their IVS Exposure Draft consultation responses.

The Board was also advised that in previous consultations the Board had received a maximum of 30 to 50 consultation process and so this was a significant increase on the previous number of IVS consultation responses.

The Board was further advised that this was largely due to a combination of a significant number of IVS Exposure Draft presentations provided to stakeholders and increased outreach by members of the IVSC Standards Review Boards and Asset Boards.

The Technical Director advised that the IVSC had provided the following presentations on the IVS Exposure Draft;

IVS Exposure Draft Presentations - Provided

16 April 2023 -European Mortgage Federation

08 May 2023 - RICS

09 May 2023 - IVSC EMEA

11 May 2023 - IVSC Americas

16 May 2023 - IVSC Asia

16 May 2023 - Mazars

18 May 2023 - Chamber of Valuers North Macedonia

24 May 2023 - TAQEEM

29 May 2023 - CMVM Portugal

30 May 2023 - Officer of the Valuer General of South Africa

31 May 2023 - ISCTE University Portugal - Real Estate Masters

05 June 2023 - SSBV

16 June 2023 - ISEG (RICS Accredited Course)

19 June 2023 - Bank of Portugal

20 June 2023 - Carter Jonas

21 June 2023 - APFIIP - Portuguese Association of REITS
20 June 2023 - Hypzert
23 June 2023 - AVI
23 June 2023 - ASB
30 June 2023 - Luxembourg VPO
30 June 2023 - Stout
01 July 2023 - Assessors and Registered Valuers Foundation (AaRVF)
04 July 2023 - API
04 July 2023 - CFA
05 July 2023 - Mexican Stock Exchange
10 July 2023 - UPAV Workshop
11 July 2023 - Les France International
14 July 2023 - Real Estate Institute of Zimbabwe
18 July 2023 - TAQEEM
21 July 2023 - Italy Summer School
25 July 2023 - S & P

Next steps

The IVS Exposure Draft Consultation responses are to be review by the Standards Review Board, the Asset Boards, and their working groups. The Standards Review Board will review the IVS General Standards consultation responses and the Asset Boards will review the consultation responses for their chapters and recommend changes.

IVS 300 Consultation Responses (2023.08.04. IVS 300 Asset Standard Consultation Responses)

The Board was advised that the IVS 300 working Group invites had been sent out to the members of the working group.

The Board was further advised that over the course of the next few days the working group would be sent an update excel spreadsheet of IVS 300 consultations responses, a word version of IVS 300, all consultation question responses and any detailed responses in relation to IVS 300.

Next steps

The IVS 300 Exposure Draft Consultation responses are to be reviewed by the IVS 300 working group. Post review of the consultation responses the working group

will propose revisions to IVS 300 prior to the revisions being considered and approved by the TAB.

IVS 400 Consultation Responses (2023.08.04. IVS 400 Asset Standard Consultation Responses)

The Board was advised that the IVS 400 working Group invites had been sent out to the members of the working group.

The Board was further advised that over the course of the next few days the working group would be sent an excel spreadsheet of IVS 400 consultations responses, a word version of IVS 400, all the consultation question responses and any detailed responses in relation to IVS 400.

Next steps

The IVS 400 Exposure Draft Consultation responses are to be reviewed by the IVS 400 working group. Post review of the consultation responses the working group will propose revisions to IVS 400 prior to the revisions being considered and approved by the TAB.

IVS 410 Consultation Responses (2023.08.04. IVS 410 Asset Standard Consultation Responses)

The Board was advised that the IVS 410 working Group invites had been sent out to the members of the working group.

The Board was further advised that over the course of the next few days the working group would be sent an excel spreadsheet of IVS 410 consultations responses, a word version of IVS 410, all the consultation question responses and any detailed responses in relation to IVS 410.

Next steps

The IVS 410 Exposure Draft Consultation responses are to be reviewed by the IVS 410 working group. Post review of the consultation responses the working group will propose revisions to IVS 410 prior to the revisions being considered and approved by the TAB.

Consultation Response Review Process

KH advised that he would be sending out an email outlining the IVS consultation review process during the course of the next week.

The Technical Director advised that he would include the main content of the email within the meeting notes, as show below;

Following on from our TAB meeting last week, Brendan (IVS 300), James (IVS 400) and Sandip (IVS 410) will be assisting me in leading the IVS consultation workstreams for over the next 2 months. Whilst I will try and attend most meetings (if not all), each will take a TAB leadership role in this process to:

- *Prioritise discussion items and agenda's relating to feedback received as part of the IVS consultation process.*
- *Coordinate and chair meetings with working group members to discuss the feedback received at times convenient to the group.*
- *Work with Alex to propose revisions to the current IVS exposure draft based on the discussions and decisions of the working group.*
- *Coordinate consultation responses on behalf of the working group (where required) for decisions made in relation to the feedback received.*

In working through the IVS consultation feedback, we have agreed that we will adopt the following process:

Alex will retain editing control over each of IVS 300, IVS 400 and IVS 410 to ensure consistency of application amongst TAB (and other IVS) asset standards.

It will be the responsibility of the working group members to provide guidance and recommendations (in conjunction with the coordinator/chair) to Alex as part of the working group meetings on proposed revisions to each of the asset standards.

A 'Track Changes' version of the relevant asset standard will be shared with the working group 24 hours prior to the next meeting for consideration.

Alex will coordinate any dialogue with the SRB, asset boards or other working groups on topics that the working group believe should be elevated or shared for broader input (see also below re General Standards feedback).

It will be the aim for each working group to have processed all proposed changes to each of IVS 300, IVS 400 and IVS 410 into a 'clean' version of that asset standard in advance of the Paris AGM.

In this regard, it will be an agenda item at the Paris AGM to 'sign off' on the final TAB asset standards, and not to debate or undertake any further editing function. It would be a preference to ensure that only TAB members are involved in the working group meetings discussing the IVS consultation feedback, but to the extent required by the coordinator/chair with the support of the working group members, the inclusion of former TAB members (for example) that were involved in the formation of the current IVS exposure draft may be invited to a working group meeting to provide background, thoughts or comments to the working group on certain topics. However, only TAB working group members will vote on the application of the proposed changes, and not any external third parties or former TAB members. Importantly, no IVS consultation feedback should be shared with any third parties, it is only for the consumption of TAB members.

Following discussions at our TAB meeting last week, Alex will shortly be sending through two x 1-hour meeting invites that present an opportunity for the TAB to discuss feedback in relation to the General Standards. If you have a particular interest to provide TAB feedback on comments received for the General Standards (in addition to any feedback you might have already provided as part of the formal consultation process), this is the opportunity to do so. Based on feedback during these meetings, Alex and I will represent the TAB at the SRB workings group meetings to present any TAB positions or concerns. These meetings will both need to take place over the next two weeks, prior to the in-person SRB meeting that will be taking place in London during the weekend starting 28 August 2023, for any TAB feedback to be properly considered and/or incorporated.

Next steps

KH to send an email to the TAB outlining the Consultation Response Review Process. The Technical Director is to include the Consultation Response Review within the meeting notes.

Administration and Processes

TAB and SRB Working Groups (Standing item only, see 2023.08.03. IVSC TAB Working Groups and 2023.08.03. IVSC SRB Working Groups)

The Board was advised that this was a standing item and that the Technical Director has sent an updated list of the TAB and SRB Working Groups for information purposes.

Next steps

None.

Key Topics for 2024 Agenda Consultation (Standing item only, see 023.08.03. Proposed Agenda Consultation Topics)

The Board was advised that this was a standing item and for information purposes the updated list of Agenda Consultation topics was as follows;

- Agricultural Land (TAB)
- AVMs and Artificial Intelligence (ChatGPT)
- Biological Assets (forests, plantations etc) (TAB)
- Block Chain
- Compulsory Purchase TAB)
- Crypto Currency
- Data and Data Handling
- Development Property (TAB)
- Discounted Cashflows (TAB)
- Expropriation/compensation
- Extractive Industries (TAB)
- Environmental, Social and Governance (ESG)
- Impairment of Assets
- Insolvency and Bankruptcy
- Insurance Valuations
- Private vs Public Markets
- Prudential Value
- Quality Control and Sole Proprietor (TAB)
- Reasonable Range
- Taxation (TAB)
- Trophy Assets
- Unregistered land
- Valuation in a volatile market (TAB)
- Valuation Risk

The Board was not asked to make any decisions.

Next steps

The Technical Director will provide the Board with an update on the Agenda Consultation during the TAB physical meeting at the IVSC AGM in Paris on the 10th and 11th October 2023.

Stakeholder Engagement

TAB were encouraged to reach out to stakeholders to ask them to participate in the IVS Consultation process.

AOB

There was no other business.

Next steps

None.