

Significant Changes in International Standards – What Do They Mean for the Valuation Practitioner

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SUMMARY

This paper explores the influence on the behaviour of the valuer as new and amended International Standards are introduced. The significant recent changes in International Standards drive a need for the valuer to be transparent in their valuation work. This need for transparency challenges the previously accepted norms that valuation is part science and part art. Some would say the international standards are increasing the necessity for the valuation to be produced on scientific evidence and reducing the reliance on 'art'. Others proffer that the move drives the valuer to be more explicit in terms of how they made the judgement calls that have traditionally been termed as the 'art of valuation'.

TEXT

The last 12 months have seen significant changes to existing International standards including International Financial Reporting Standards (IFRS) and International Valuation Standards (IVSC). These changes will drive significant behavioural change in both the valuer and their clients. In addition new International Standards are being introduced to the sector including International Ethical Standards, International Property Measurement Standards, International Construction Measurement Standards and International Land Measurement Standards. All these new Standards have an impact on the work of the valuer and expectations from clients.

In addition the valuer is facing other new challenges and opportunity through Big Data management and automated valuation models.

Before exploring the changes in International Standards in the area of Valuation it is helpful to consider the following question: Do International Standards help implement the DeSoto proposition that:

“If standard descriptions of assets were not readily available, anyone who wanted to buy, rent or give credit against an asset would have to expend enormous resources comparing and evaluating it against other assets- which would also lack standard descriptions.”

The author would contend that they do because International Standards create a common language that helps in the understanding of situations and assets thus avoiding time delays. An example is the International Financial Reporting Standards (IFRS) whose mission is 'to develop IFRS Standards that bring transparency, accountability and efficiency to financial markets around the world. Our

work serves the public interest by fostering trust, growth and long-term financial stability in the global economy.

- IFRS Standards bring transparency by enhancing the international comparability and quality of financial information, enabling investors and other market participants to make informed economic decisions.*
- IFRS Standards strengthen accountability by reducing the information gap between the providers of capital and the people to whom they have entrusted their money. Our Standards provide information that is needed to hold management to account. As a source of globally comparable information, IFRS Standards are also of vital importance to regulators around the world.*
- IFRS Standards contribute to economic efficiency by helping investors to identify opportunities and risks across the world, thus improving capital allocation. For businesses, the use of a single, trusted accounting language lowers the cost of capital and reduces international reporting costs*

If this is the case for IFRS's then is the same true for the other International Standards that affect the valuation space?

These International Standards have been created (or are being created) by consortium with Public Interest mandates. Each International Standard has the objective to provide a common business language that enhances transparency, removes subjectivity and provides benchmarking opportunities. In this way they are all an embodiment of the DeSoto criteria.

They create a common language understood across borders. They create 'standard discretion and comparison functions' that underpin effective and timely decision making. They provide benchmarking opportunities to assess measures taken in both a physical and monetary format. The Standards reduce the opportunity for 'Time Stealers' i.e. individuals or process that take up unnecessary time because standardisation of information is not present. In addition the process of standardisation reduces the 'muddy waters' where corruption can hide (Elder 2012).

The contention is that this transparency reduces the ability of the valuer to rely on the 'art of valuation' because the valuer must be able to explain how their valuation meets the requirements of the International Standard. The valuer must create an audit trail through the valuation process clearly articulating their interpretation of the facts and why they have made the judgement calls. Therefore the behaviour of valuers is changed by International Standards because of the necessity to explain the judgement calls. However judgement calls are still required by valuers but better records of and audit trails are necessary to explain the underpinning rationale, this leads to the valuer giving careful consideration to the judgement calls rather than relying on the unexplained 'Art of Valuation'.

The key international standards driving the change are:

International Valuation Standards (IVS)

International Valuation Standards are set by the International Valuation Standards Council (IVSC) (IVSC, 2017). IVSC is an independent not for profit organisation that produces and sets standards for the valuation of assets across the world in the public interest. The organisations' mission is to establish and maintain effective, high-quality international valuation and professional standards, and to contribute to the development of the global valuation profession, thereby serving the public interest (IVSC, 2017). IVS's are the recommended standards for valuing assets in the IFRS's. The IVS's are set by an independent standard setting Board within IVSC whom are selected from an open application process. All standards are subject to an open public consultation process before adoption.

International Ethics Standards for the real estate and related professions (IES)

International Ethics Standards (IES) for the real estate and related professions are set by the International Ethics Standards Coalition (IESC) (IESC, 2016). IESC is a coalition of not for profit Professional Bodies who have come together to agree a single set of Ethical Standards for the real estate and related professions (IESC, 2016). The objective of IESC is to create a universal set of ethical principles for real estate and related professions that will provide assurance, consistency and confidence to all users of professional services (IESC, 2016). The standards are set by an independent standard setting committee whose members are selected following an open application process (IESC, 2016). The IES's are subject to public consultation before implementation.

International Property Measurement Standards:

International Property Measurement Standards (IPMS) are set by the International Property Measurement Standards Consortium (IPMSC) (IPMSC, 2016) This is a coalition of not for profit professional bodies who have come together to agree a single set of measurement standards for the measurement of real estate by use class. This is the first time a single set of standards for the measurement of real estate has been introduced on an international scale. Currently the way real estate assets, such as homes offices or shopping centres are measured varies dramatically. Data from JLL interpreted by RICS (RICS, 2016[a]) shows that, depending on which standard of measurement is adopted a 24% variance in the reported floor area is possible. IPMSC (2016) is working to develop and embed a single property measurement standard. IPMS will ensure that property assets are measured in a consistent way, creating a more transparent marketplace, greater public trust, stronger investor confidence and increased market stability.

International Land Measurement Standards - particularly relating to the valuation of unregistered land- ILMS

International Land Measurement Standards (ILMS) are being developed and set by The International Land Measurement Standards Coalition (ILMSC) (RICS, 2016[b]). ILMSC is a coalition of not for profit Professional Bodies who are working together to develop and implement standards that reflect best practice in land tenure focusing on issues that will bring consistency in approach and transparency to the treatment of un-registered land that currently lies outside of formal markets. It is estimated that up to 70% of land and property in the developing world falls into this un-registered category. Success in developing ILMS will support some of the most

vulnerable families and individuals in society by providing clear steps to be applied improving transparency where the unregistered land and or assets meet the market (RICS 2016[b]). The standards will be set by an independent standard setting committee with individuals selected from an open application process. The standards are subject to public consultation before adoption.

International Construction Measurement Standards (ICMS)

International Construction Measurement Standards are being developed and set by The International Construction Measurement Standards Coalition (ICMSC). ICMSC is a coalition of over 50 not for profit Professional Bodies (ICMSC, 2016[a]) who are working together to develop and implement international standards for benchmarking, measuring and reporting construction project costs. At present, the way construction projects are reported and costs varies significantly between markets (ICMSC, 2016[b]). These differences make it difficult to compare projects around the world, increasing investment risk and impeding transparency. The ICMSC seeks to develop and implement a common standard for construction measurement which will enhance transparency, investor confidence and public trust in the sector. The standards will be set by an independent standard setting committee with individuals selected from an open application process. The standards are subject to public consultation before adoption.

The paper will explore how the International standards provide a clear audit trail for post disaster evaluation reducing the murky waters where corruption can hide.

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Ben is responsible for delivery of the RICS Global Valuation Strategy which has a key role to play in securing global financial stability through participation by the RICS in the development and application of International Valuation Standards. Ben is well qualified for this role as an Economist and a Chartered Surveyor and he has a particular interest in the interface of the economy and property markets.

Ben has been a practising valuer and respected academic holding senior positions at Nottingham Trent University and The College of Estate Management. Ben joined the RICS as Global Director of Valuation in 2011 having served on various RICS Boards including International Governing Council as an elected World Representative.

In recognition of Ben's international expertise, Ben has been appointed to The Global Advisory Forum for The Appraisal Foundation in the USA as well as the Advisory Forum Executive to the International Valuation Standards Council. Ben also chairs the Tangible Assets Board at the International Valuation Standards Council and has a seat on the overarching International Standards Board.

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