

# Fair Value accounting is the accepted model

## IVSC News

Fair Value accounting is favoured by the International Accounting Standards Board (IASB) as the preferred basis for measuring assets. With the introduction of International Financial Reporting Standards (IFRS) in many parts of the world, including for all publicly listed companies in the European Union in 2005, the correct application of Fair Value on a consistent and transparent basis is vitally important.

However, nothing can be truly global unless the world's biggest economy is included. The USA has not adopted IFRS but instead has its own accounting rule book as set down by the Financial Accounting Standards Board (FASB). FASB does not recognise the Fair Value convention. Assets are recorded at their Depreciated Historic Cost.

Nonetheless, IASB and FASB are working together to attempt to harmonise their respective accounting standards. The question of how assets should be recognised on the balance sheet is one of the key issues to be resolved. To this end, both IASB and FASB are making a thorough examination of Fair Value, what it means and how it should be applied. The IASB has commissioned a report by the Canadian Institute of Accountants and it is anticipated that a draft report and consultation paper will be issued later this year.



John Edge  
IVSC Chairman

Simultaneously, FASB is making its own investigation into Fair Value and has recently issued an exposure draft. The IASB defines Fair Value as "The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction". It has been tentatively proposed that there is a four-level measurement hierarchy in establishing Fair Value.

Level 1 is determinable by direct reference to an observable market price. Failing that, Level 2 requires an accepted model for estimating market price. Level 3 has regard to the price actually paid (assuming no persuasive evidence that it was unrepresentative). Level 4 allows techniques using entity-specific data that can be estimated reliably and which is not inconsistent with market expectations.

International Valuation Standards (IVS) define Market Value as: "The estimated amount for which a 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, prudently, and without compulsion".

Fair Value has a broader, more generic meaning than Market Value. In most circumstances, however, Fair Value will be best represented by Market Value. However, where no evidenced market exists, then Fair Value can be represented instead by an income approach or depreciated replacement cost approach.

Historically, in some parts of the world (eg. in the UK and Commonwealth countries), for owner occupied properties, an existing use or deprival value model was favoured. In 1998, the IASB abandoned Market Value for the Existing Use, requiring all real estate assets to be valued at Market Value where an identifiable market existed.

## In this edition

IVSC News	1
International Financial Reporting Standards	5
Public Sector	6
Global Investment Performance Standards	7
Banking Industry	8
Dependencies for Financial Intermediation	9

However, the deprival value lobby will not go away. There is support in some quarters for a "rational management measurement" approach which proposes that a property can have more than one value depending on whether the owner wishes to retain the property as operational within the business or to treat it as surplus. One variation on this theme proposes that a property can have an "entry price" and an "exit price", which may differ. *Continued overleaf/...*

*This Newsletter is produced on behalf of The International Valuation Standards Committee (IVSC).*

*The views expressed are not necessarily those of the IVSC Board or of the members of IVSC.*

Further information from:  
The Executive Director,  
12 Great George Street,  
London SW1P 3AD  
Tel/Fax: +44 (0)1442 879306  
e-mail: [ivsc@ivsc.org](mailto:ivsc@ivsc.org)



During 2003, the IVSC issued a Consultation Paper on the valuation approach to owner occupied property, with particular examination of DRC methodology. The Editorial Group of the IVSC Standards Board subsequently issued a Position Paper which proposed consideration of the adoption of a second valuation basis (the other being Market Value), called Continuing Use Value (CUV). A number of responses were received, some critical, and the IVSC Standards Board concluded at its meeting in Vancouver in March 2004, that CUV was not appropriate under existing accounting requirements. The Position Paper is effectively "parked" pending the outcome of the IASB measurement project.

A second issue of continuing concern – the assumption to be made when valuing owner occupied property – should also be resolved once the accounting concepts are clarified. One school of thought is that these should be valued on the basis of their exit price (ie. as if vacant). The other school holds that owner occupied properties should be valued to reflect the benefit of occupation. How the latter is measured is open to debate. Some consider that a capitalised rental value, without discount for void period, leasing up costs, etc, is an appropriate methodology.

It is hoped that the IASB will be in a position to confirm the accounting concept to be applied to owner occupied property – under IAS 16 "Property, Plant and Equipment" and under IAS 36 "Impairment of Assets" – in time for 2005 and the European Union's adoption of these standards. IVS reflect, where appropriate, IAS/IFRS.

John Edge  
IVSC Chairman

## Seventh edition of IVS (2005)

The seventh edition of the International Valuation Standards will be available early 2005. This new edition will include:

- Revised IVA 1, Valuation for Financial Reporting. Revisions are being incorporated to ensure that the IVA reflects the requirements of the 2004 edition of International Financial Reporting Standards.
- Revised Guidance Note 2, Valuation of Lease Interests. The revisions will incorporate the requirements of IAS 17, Leases and IAS 40, Investment Property, published December 2003.
- Revised Guidance Note 8, Depreciated Replacement Cost.
- New Guidance Note – Valuation of Properties in the Extractive Industries
- New Guidance Note – Mass Appraisal for Property Taxation

New or revised guidance notes are also being developed in the following areas:

- Valuation of Public Sector Assets
- Valuation of Specialised Trading Properties
- Valuation of Plant and Equipment

A new expert group has begun work to develop guidance on the Valuation of Historic Property. The Canadian government has provided financial resource to the IVSC for this project.

## Deloitte IFRS Model Financial Statements Support International Valuation Standards

Deloitte has published model financial statements to illustrate the typical disclosures of a UK listed company reporting under International Financial Reporting Standards (IFRSs) for 2005. The notes to the accounts for Property, Plant and Equipment and for Investment Property carry the statement: *'The valuation conforms to International Valuation Standards.'*

Material that has been included to meet specific UK requirements has been highlighted in the model financial statements. Otherwise, Deloitte considers that the model statements are appropriate for entities following IFRSs in any country. Globally, thousands of companies will be moving to IFRS as their primary basis of financial reporting as from 2005. The use of IFRSs becomes mandatory for listed companies in the 25 European Union member states in 2005. About 70 other countries will also be using IFRSs directly or aligning national standards with IFRSs.

John Edge, IVSC Chairman welcomed the publication, "The IVSC has long maintained that use of International Valuation Standards can help in the rigorous and consistent application of International Financial Reporting Standards (IFRS). Valuers who are called upon to prepare a valuation for IFRS accounts should be aware that the auditing profession may require the valuation under International rather than national valuation standards."

The Model Financial Statements can be viewed on [www.iasplus.com](http://www.iasplus.com)

Opinion expressed by the UN Economic Commission for Europe, Ad Hoc Group of Experts on Reserves/Resources on IVSC Exposure Draft on Proposed International Valuation Guidance Note – Extractive Industries

*"The IVSC has developed an excellent exposure draft. It is clear, concise and makes reference to the recognised techniques for valuing extractive industries."*

## EPRA Best Practices Policy Recommendations

In January 2004, the European Public Real Estate Association (EPRA) published its Best Practices Policy Recommendations. EPRA's recommendations provide specific guidance for real estate companies within the IFRS framework and encourage uniform performance reporting and presentation between real estate companies.

EPRA recommends that the valuation of investments property held by real estate companies should be at market value, assessed in accordance with International Valuation Standards (IVS), as set out by the IVSC.

To view the Best Practices Recommendations visit [www.epra.com](http://www.epra.com)

## Valuation for Stock Exchange Prospectuses - EU Proposals

In April the European Commission has adopted legislation governing the content of the prospectus to be published when securities are offered to the public or admitted to trading (Prospectus Directive). The intention is that a prospectus issued for one Stock Exchange will be acceptable for any other throughout the EU.

The Committee of European Securities Regulators (CESR) is now moving to provide recommendations to ensure consistent implementation of the legislation and to avoid any kind of ambiguity that could lead to different interpretations of the rules. The CESR has issued proposed recommendations for consultation. Of particular interest to the IVSC are the recommended requirements to be imposed on specialist issuers such as property companies.

The CESR is proposing that property companies include in their prospectus (and preferably in the securities note) a valuation report.

**This valuation report must:**

- 1)- be prepared by an independent expert;
- 2)- give the date or dates of inspection of the property;
- 3)- provide all the relevant details in respect of each property necessary for the purposes of the valuation;
- 4)- be dated and state the effective date of valuation for each property, which must not be more than 60 days prior to the date of publication of the prospectus;
- 5)- include a summary showing separately the number of freehold and leasehold properties together with the aggregate of their valuations (negative values must be shown separately and not aggregated with the other valuations; separate totals should be given for properties valued on different bases);
- 6)- include a statement reconciling the valuation figure with the equivalent figure included in the issuer's latest published individual annual accounts or consolidated accounts, if applicable.

If the company holds more than 60 properties, only a report in a suitably condensed format needs to be included in the prospectus but the full report must be made available as a document on display.

The IVSC is in discussion with the CESR as to the role that the IVS can play in ensuring consistent implementation of the European legislation.



George Badescu  
IVSC Management Board - Romania

## IVS in emerging economies

### Romania

*George Badescu represents Romania on the IVSC Management Board. He is also a member of the IVSC Standards Board. George has played a key role in the development of the Romanian national association of valuers - ANEVAR. In this article, he reflects on the recent decision by ANEVAR to adopt the IVS. A Romanian translation of the IVS was launched in Bucharest last October.*

The countries with emerging markets need more than others professional standards and code of ethics for all the new and old professions. In Central and Eastern Europe the new professional associations emerged and they have adopted various models of organisation (accountants, lawyers, auditors, valuers, real estate agents, securities brokers, insurance brokers, etc.) The economic relations on a regional and international scale require a uniform understanding of professionals activities and the response is regional and international standards.

In Europe there is European Union legislation adopted by all EU members and by countries seeking EU membership. At the same time there is a tendency in EU to endorse/adopt internationally accepted laws and norms. An example is the adoption of International Financial Reporting Standards in 2005.

Romania as a country seeking EU membership has adopted officially the IAS/IFRS and is working to adjust the national legislation to European legislation.

ANEVAR's decision to adopt IVS as the base for its standards has been very well received by the different Romanian authorities. In May, the new bankruptcy law requires application of IVS on company reorganisation and bankruptcy. This is a very important step because from now all other legislation should be consistent regarding the valuation standards and the application of IVS will grow.

ANEVAR reached its decision having considered the fact that as the country with an emerging market it was not wise to prepare and adopt a separate national standard while other countries (for example UK, Australia, etc.) were

moving to adopt IVS. The main reason is that we are trying to attract the foreign investments and the investors are asking for a known and transparent measurement of value.

Why IVS and not the European Valuation Standards issued by The European Group of Valuers? Because IVS are more related to IAS/IFRS and the auditors are considering this. On the other hand there are no signals that EU will issue and adopt European Standards and we foresee more likely that EU will follow the same approach as for accounting standard.

As I know the situation in former European socialist countries IVS could have a major role in standard setting there but for this IVSC must promote the IVS more vigorously. One way is to have a closer contact with the valuers associations. Promotion of the IVS via the large accounting and real estate firms working in the region is also very important.

## Development of the Valuation Profession in Egypt

In response to a request from the Ministry of Finance of Egypt, USAID has instigated a five-year project to establish effective primary and secondary markets for real estate finance in Egypt.

The overall project objective is to build the market infrastructure required for real estate financing and other forms of secured lending.

One of the activities to be undertaken is the establishment of a professional real estate appraisal industry in Egypt that is accepted by lenders, including a real estate appraisal association with linkages to sister institutions in other countries and the International Valuation Standards Committee (IVSC) in London and the Appraisal Institute in Chicago, and introduction of IVSC standards and practices.

The importance of valuation standards and a valuation profession to financial sector development is well recognised by USAID. A chart produced by USAID is reproduced on page 9.

## Toronto valuation accord

During their June 25, 2004, meeting in Toronto, Ontario, the Toronto Valuation Accord organisations reaffirmed their commitment to support ongoing changes in financial reporting standards in North America and the international harmonisation of accounting standards. Based on financial reporting standards activities over the past year, the group emphasised the importance of regulatory, corporate, and public understanding of their earlier statement that "the move toward market value in financial reporting is in the best interest of the public, investors, government, and business decision makers."

According to Brad Wagar, chair of the Toronto Valuation Accord, "Greater public knowledge and support for the work of the U.S. Financial Accounting Standards Board is particularly important. The FASB will hopefully follow the full international harmonisation of accounting standards in other countries by no more than two years, and is currently emphasising the crucial role of current value reporting of assets and liabilities in corporate financial statements. While the Toronto Valuation Accord continues to seek an already internationally accepted concept of market value, which has been used in other parts of the world for many years, we applaud the FASB's progress in incorporating market value concepts into its financial reporting framework."

"North American financial statements, with notable but limited exceptions, have traditionally applied a depreciated historical cost convention in financial reporting," Wagar continued. "New assets are commonly booked at their cost (presumably their market value at that date), but as various forms of depreciation are applied over the years, assets can grow in market value while decreasing significantly in value as reflected in financial statements. This difference creates potential for misrepresentation and misunderstanding in financial reporting.

When the value of an asset is reported at its current value in the marketplace, as contrasted with an historical cost-based number, greater public reliance can be placed upon financial statements. With greater public protections and



improved understanding of the operations and financial conditions of reporting companies through reforms in financial reporting, investors and the public at large have greater assurance that the headline-grabbing abuses of corporate governance and financial reporting can be controlled, markets improved, and economies better protected."

At an international level, the Toronto Valuation Accord group continues to support the International Valuation Standards Committee (IVSC) in its work to ensure valuation standards are consistent with and complementary to the financial reporting standards being developed and promulgated by the International Accounting Standards Board. The Toronto Valuation Accord coalition intends to encourage the use of market value concepts and to aid in expediting the simplification and convergence of financial reporting standards in North America and internationally.

To this end, the members of the Toronto Valuation Accord and their representatives to the IVSC seek greater public involvement and assistance to ensure that the FASB's recently released Proposal on Fair Value Measurements ([www.fasb.org](http://www.fasb.org)) has wide public response before it's finalised.

The Toronto Valuation Accord group also continues to urge FASB to work more closely with The Appraisal Foundation, and in Canada for the Canadian Accounting Standards Board to work more closely with the Appraisal Institute of Canada, as well as continue to build their interaction with the

International Accounting Standards Board and IVSC, to harmonise terminology and concepts applied in the multi-disciplinary requirements of professionals who will be crucial to implementing new standards.

During the North American Valuation Summit on Financial Reporting, held June 24, 2004, in Toronto, members of Toronto Valuation Accord coalition organisations and representatives from industry and regulatory agencies, including FASB, the Public Company Accounting Oversight Board, and the Canadian Accounting Standards Board, held an open public forum on various issues regarding the move to a current value reporting standard. It is the intent of the Toronto Valuation Accord organisations to seek and support changes that improve the global flow of capital and protection of investors.

#### **Toronto Valuation Accord Coalition**

Representing over 30,000 valuation professionals in the United States and Canada, the American Society of Appraisers, Appraisal Institute, Appraisal Institute of Canada, RICS-USA, RICS-Canada, and American Society of Farm Managers and Rural Appraisers provide the voice for the valuation profession in North America.

# International Financial Reporting Standards

Two new International Financial Reporting Standards of particular interest to the IVSC have been released by the IASB:

## **IFRS 3 Business Combinations**

The IASB announced in July 2001 that it would undertake a project on Business Combinations as part of its initial agenda. The project's objective is to improve the quality of, and seek international convergence on, the accounting for business combinations

and for goodwill and intangible assets. The project has a number of phases. IFRS 3, together with the revised versions of IAS 36 and IAS 38, was issued as part of the first phase. Under IFRS 3, many more intangible assets will be recognised at the date of acquisition and then be subject to subsequent amortisation. This represents a significant change.

There is a perception that measuring intangible assets and predicting their future value is difficult and inherently uncertain. However, the presumption under ED 3 is that most intangible assets can be reliably measured, so companies will have no option but to recognise them on the balance sheet.

#### **The main features of the new Standard are:**

- all business combinations within the scope of IFRS 3 must be accounted for using the purchase method. The pooling of interests method is prohibited.
- costs expected to be incurred to restructure an acquired entity's (or the acquirer's) activities must be treated as post-combination expenses, unless the acquired entity has a pre-existing liability for restructuring its activities.
- intangible items acquired in a business combination must be recognised as assets separately from goodwill if they meet the definition of an asset, are either separable or arise from contractual or other legal rights, and their fair value can be measured reliably.
- identifiable assets acquired, and liabilities and contingent liabilities incurred or assumed, must be initially measured at fair value.
- amortisation of goodwill and intangible assets with indefinite useful lives is prohibited. Instead they must be tested for impairment annually, or more frequently if events or changes in circumstances indicate a possible

impairment.

## **IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations**

IFRS 5 is the first standard to arise from the IASB's joint project with the FASB and results from the IASB's review of the FASB standard SFAS 144 Accounting for the Impairment or Disposal of Long-Lived Assets, which was issued in 2001.

IFRS 5 requires assets that are expected to be sold and meet specific criteria to be measured at the lower of carrying amount and fair value less costs to sell. Such assets should not be depreciated and should be presented separately in the balance sheet. It also requires operations that form a major line of business or area of geographical operations to be classified as discontinued when the assets in the operations are classified as held for sale.

#### **IFRS 5 requires:**

- a classification for non-current assets 'held for sale'
- assets sold in a single transaction to be accounted for as a disposal group
- that assets or disposal groups that are classified as held for sale are carried at the lower of carrying amount and fair value less costs to sell
- that an asset classified as held for sale, or included within a disposal group that is classified as held for sale, is not depreciated
- that an asset classified as held for sale, and the assets and liabilities included within a disposal group classified as held for sale, are presented separately



# Fair value measurement

US Financial Accounting Standards issued by the Financial Accounting Standards Board (FASB) have in recent years, been requiring fair value measurements with ever increasing frequency (e.g., financial instruments, business combinations, asset impairments, etc.). While the standards clearly indicate what is to be measured at fair value, they provide limited guidance on how to measure it. The result has been piecemeal and inconsistent guidance dispersed among different standards.

In its Exposure Draft, Fair Value Measurements, issued June 2004, FASB proposes to standardise fair value guidance by creating a comprehensive framework for measuring the fair value of most financial and non-financial assets and liabilities. The ED does not broaden or expand the use of fair value measurements in financial statements. Its purpose is to unify conceptually fair value requirements as they currently exist (and will exist) within other standards.

## Definition of Fair Value

FASB has revised the definition of fair value in many existing pronouncements to refer to "the price at which an asset or liability could be exchanged in a current transaction between knowledgeable, unrelated willing parties."

## FASB has clarified that:

- A fair value measurement presumes that an entity is a going concern without intention or need to liquidate. In that context, the objective of a fair value measurement is to estimate the single agreed-upon exchange price between willing parties in a transaction other than in a forced liquidation transaction or distress sale.
- Willing parties are all marketplace participants (buyers and sellers) with access to the same markets that are willing and able to transact in those markets.
- A hypothetical exchange transaction notion is essential as a basis for replicating an exchange price in the absence of an actual (observable) transaction.

Valuation techniques consistent with a market approach, an income approach, and, where applicable, a cost approach should be considered for all fair value estimates, especially Level 3 estimates. Valuation techniques used to estimate fair value should maximise market inputs.

Market inputs refer to the assumptions that marketplace participants would use in their estimates of fair value. Market inputs are determined based on information (market data) that is timely, originated from sources independent of the entity, and used in making pricing decisions. Valuation techniques used to estimate fair value should emphasise market inputs in active or other markets whether using the market approach, income approach, or cost approach.

## Fair Value Hierarchy

The fair value hierarchy prioritized the inputs that should be used in valuation techniques used to estimate fair value in three broad levels.

### Level 1 Estimates

Level 1 estimates should be determined using quoted prices for identical assets or liabilities in active reference markets, if available.

### Level 2 Estimates

Level 2 estimates should be determined using quoted prices for similar assets or liabilities in active markets, adjusted as appropriate for differences. For Level 2 estimates, the price effect of the differences must be objectively determinable. Otherwise, the estimates are Level 3 estimates, requiring corroboration through the results of other valuation techniques.

### Level 3 Estimates

Level 3 estimates should be determined based on the results of multiple valuation techniques whenever the information necessary to apply those techniques is available. Level 3 estimates vary to the extent of market inputs used.

Some Level 3 estimates may consider significant market inputs, including observable prices generated by actual market transactions, adjusted as appropriate. For other Level 3 estimates, market inputs may not be available without undue cost and effort.

The Board decided that for those Level 3 estimates, valuation techniques that rely on an entity's own assumptions (entity inputs) may be used as a practical expedient, provided that there are no data indicating that marketplace participants would use different assumptions, except as otherwise specified by other applicable pronouncements.

The proposed Standard would be effective for financial statements issued for fiscal years beginning after June 15, 2005, with earlier application encouraged. The exposure draft is available on FASB's web site - [www.fasb.org](http://www.fasb.org)

# Public sector

## The 4th Annual OECD Public Sector Accruals Symposium

John Edge, IVSC chairman, was invited to speak at the 4th Annual OECD Public Sector Accruals Symposium. Over 110 delegates attended the Symposium, which was chaired by Mr. Ian McPhee, Deputy Secretary, Department of Finance and Administration, Australia. As in previous years, a large part of the meeting was devoted to the accrual treatment of specific transactions, assets and liabilities that are unique to the public sector.

These included non-exchange revenue (taxes), social policy obligations, military equipment, heritage assets, credit programmes (loan and guarantees), provisions and commitments. The IFAC Public Sector Committee presented their work on the first two items as well as providing a general update on their work. The various facets of valuation in a public sector context were discussed, including a presentation by the IVSC.

The International Accounting Standards Board provided an update on developments with private sector GAAP and the potential implications for public sector accounting standards. The International Task Force on the Harmonisation of Public Accounts also presented its work.



## IFAC Statements of Membership Obligations

The Board of the International Federation of Accountants (IFAC) recently approved seven Statements of Membership Obligations (SMOs) designed to assist and direct IFAC's 158 member organisations and potential members in ensuring high quality performance by professional accountants.

The SMOs, released after an extensive comment period, cover a member body's obligations to support the work of IFAC, the work of the International Accounting Standards Board, and obligations regarding quality assurance and investigation and discipline.

The specific SMOs, which may be downloaded from the IFAC website at [www.ifac.org](http://www.ifac.org), cover the following areas:

- Quality Assurance
- International Education Standards for Professional Accountants and Other EDCOM Guidance
- IFAC Code of Ethics for Professional Accountants
- International Standards Related Practice Statements and Other Papers issued by the International Auditing and Assurance Standards Board
- International Public Sector Accounting Standards and other PSC Guidance
- Investigation and Discipline
- International Financial Reporting Standards. This SMO requires IFAC's member organisations to support the work of the IASB by notifying their members of every IFRS; Encourage their members to comment on IASB proposals; use their best endeavours to incorporate the requirements of IFRSs in their national accounting requirements, or where the responsibility for the development of national accounting standards lies with third parties, to persuade those responsible for developing those requirements that general purpose financial statements should comply with IFRSs, or with local accounting standards that are converged with IFRS, and disclose the fact of such compliance; and Assist with the implementation of IFRSs, or national accounting standards that incorporate IFRSs.

# Global Investment Performance Standards (GIPS)

Property fund managers will have a new set of regulations to deal with when the real estate provisions of the Global Investment Performance Standards (GIPS) become effective in January 2006. The financial markets and the investment management industry are becoming increasingly global in nature. Given the variety of financial entities and countries involved, this globalization of the investment process and the exponential growth of assets under management led to the need to standardise the calculation and presentation of investment performance.

GIPS are developed under the leadership of the Chartered Financial Analysts Institute (previously called the Association for Investment Management and Research). Standards are already in place for equities and bonds and national standards for reporting equity and bond portfolio returns have rapidly fallen into line and adopted and/or refined GIPS.

The Standards require that real estate investments must be valued at Market Value at least once every twelve months. For periods beginning January 1, 2008, real estate investments must be valued at least quarterly. Real estate investments must be Externally Valued by a Professionally Designated, Certified, or Licensed Valuer/Appraiser at least once every thirty-six months, although the Standards recommend that investments be externally valued at least once every twelve months.

The first External Valuation must be completed no later than December 31, 2007 although firms are encouraged to complete an External Valuation sooner than 2007. External Valuations must be completed pursuant to the valuation standards of the local governing appraisal body.

In markets where there are no valuation standards or where there are no Professionally Designated, Certified, or



Licensed Valuer/Appraisers are not available and valuers or appraisers from other countries bearing such credentials do not commonly operate, then the party responsible for engaging such services locally shall take necessary steps to ensure that only well-qualified property valuers are utilised.

While welcoming the GIPS Real Estate Provisions, the IVSC is disappointed that, despite representations from itself and other national valuation institutes, the GIPS does not encourage the use of the International Valuation Standards. It is also disappointed that rather than adopt the IVSC definition of Market Value, that has been adopted by many countries throughout the world, GIPS has chosen the definition of Market Value from the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA) passed by the US Congress in 1989.

Speaking at a seminar in London on the GIPS Real Estate provisions, Simon Latham, ING REIM director said that he believed the standards would not be hard to apply, but that client requirements were already more sophisticated. He pointed out that the standardisation of valuations was an important part of GIPS, but that valuation standards and methodology varied across the world. Further representations have been made to the Institute by valuation and appraisal institutes in North America to consider amending the GIPS requirements.

# Banking industry

The Basel Committee on Banking Supervision published in June the text of a new framework, 'International Convergence of Capital Measurement and Capital Standards', widely known as Basel II. This text will serve as the basis for national rule-making and approval processes to continue and for banking organisations to complete their preparations for Basel II's implementation due either year-end 2006 or 2007 depending on the approach adopted by banks.

"Basel II introduces a far more comprehensive framework for regulatory capital and risk management than we have ever known," said Jaime Caruana, Chairman of the Basel Committee and Governor of the Bank of Spain. "The Committee owes this accomplishment to the tremendous commitment and technical support that banks, central banks, supervisory authorities and academics from around the world offered us. Now that level of collaboration will be invaluable to the prudent implementation of the new framework."

Basel II represents a major revision of the international standard on bank capital adequacy that was introduced in 1988. It aligns the capital measurement framework with sound contemporary practices in banking, promotes improvements in risk management, and is intended to enhance financial stability.

## Basel calls for valuation standards

In July, the Basel Committee on Banking Supervision published guidance for national supervisors and banks planning the transition to Basel II.

Among the key requirements are "the adoption of internationally accepted accounting standards, asset valuation rules which are consistent, realistic and prudent, and loan loss provisions that reflect realistic repayment expectations". "All necessary," says the Committee, "to ensure that capital ratios - computed under the 1988 or new Framework - will reflect meaningfully the capital adequacy of the bank."

## European Commission adopt IVSC definition of Market Value

Europe has moved quickly to adopt Basel II. In July, the European Commission presented a proposal - a draft directive on Capital Adequacy - to ensure the coherent application throughout the EU of Basel II. All EU member states will have to apply the terms of the directive to all banks and investment firms within their border. This is in contrast to the US, where banking regulators expect that in total some 20 of the country's largest banks will operate under Basel II rules.

Of particular significance to the IVSC is that the European Commission has responded to discussions with the IVSC and national valuation institutes and has adopted the IVSC definition of Market Value in the draft directive. The EU has chosen the IVSC definition in preference to that proposed in Basel II. As the Basel II definition itself was drawn from earlier EU legislation, it is hoped that Basel will move to amend its definition to adopt the internationally accepted definition.



## Forthcoming meetings and seminars

**2 - 3 October 2004**  
IVSC Standards Board

**4 October 2003**  
IVSC Management Board meeting

**5 October 2004**  
IVSC Annual General Meeting and seminar

IVSC October meetings are being held in The Hague, The Netherlands

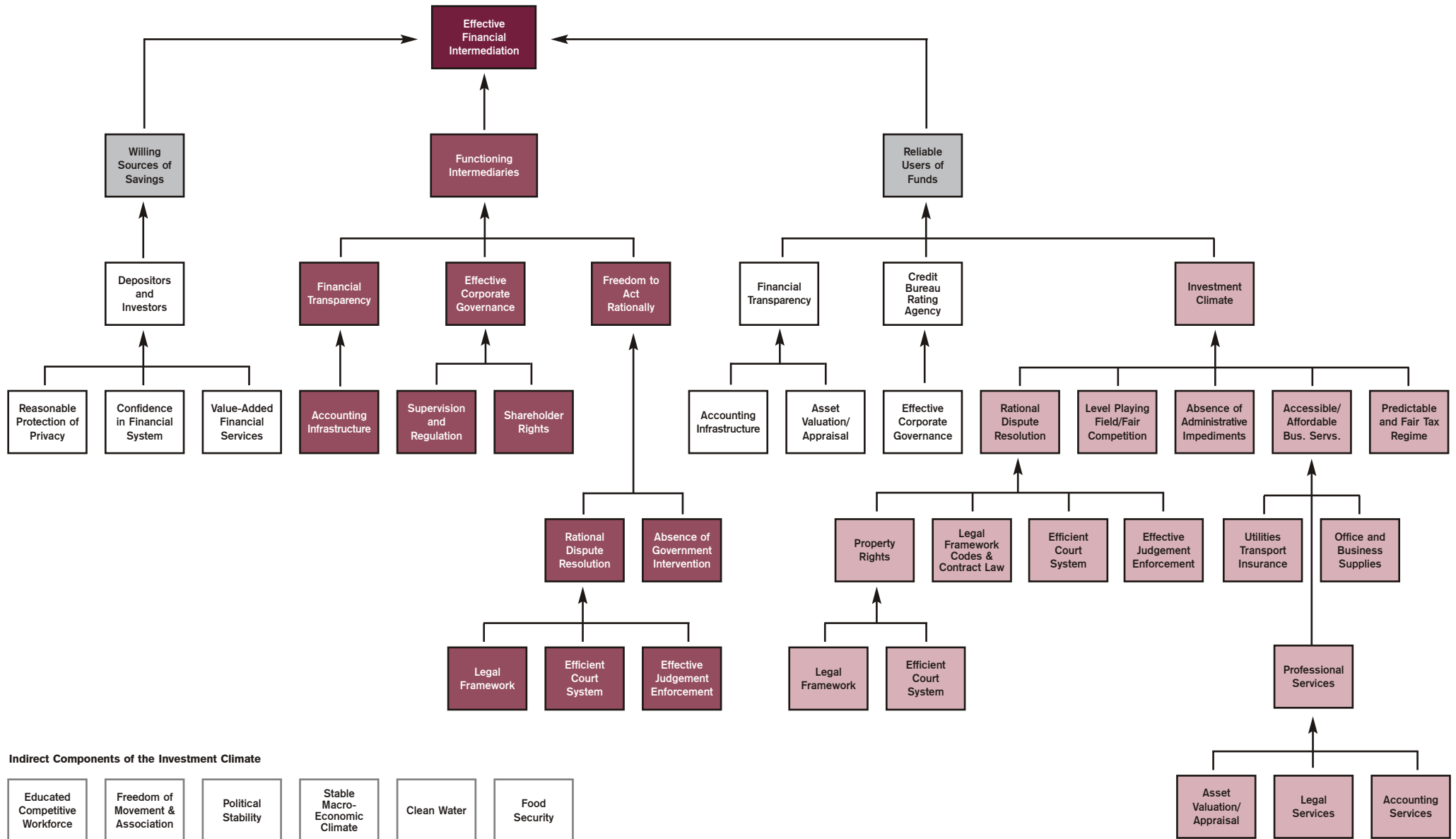
**19 - 21 March 2005**  
IVSC Standards Board and Management Board meetings, Sydney, Australia

## Financial contributions

The IVSC acknowledges the financial contributions received from the following organisations:

American Appraisal Associates  
American Society of Appraisers  
Appraisal Institute of Canada  
Appraisal Institute, US  
Association of Valuers and Property Consultants in Private Practice, Malaysia  
ATIS REAL Weatheralls  
Australian Property Institute  
Board of Valuers, Appraisers and Estate Agents, Malaysia  
China Appraisal Society  
Cushman & Wakefield Healey & Baker  
Drivers Jonas  
DTZ Debenham Tie Leung Ltd  
Gerald Eve  
GVA Grimley  
Hong Kong Institute of Surveyors  
Institution of Surveyors, Malaysia  
Jones Lang LaSalle  
King Sturge & Co  
Knight Frank  
Thai Valuers Association  
National Assoc. of Romanian Valuers  
Royal Institution of Chartered Surveyors  
Verband deutscher Hypothekenbanken e.V

# Dependencies for Financial Intermediation



This chart is reproduced with the kind permission of the United States Agency for International Development, Office of Economic Growth of the Bureau for Economic Growth, Agriculture and Trade.

# Notes

