

IVSC TAB Meeting Update October 2024

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 October 2024. The topics in order of discussion were:

Administration

- Administration. Welcome and Attendance - Kim Hildebrandt
(2024.10.09. IVSC TAB Conference Call Agenda Final PDF)
- IVSC TAB Meeting Update September 2024 - All
(IVSC TAB Meeting Update September 2024 Final)

Global Insights & Markets Update

Around the World – Markets Update 2024 – Prudential Value
(2024.09.19. BoE and Prudent Value and 2024.09.19. PS9_24 – Implementation of the Basel 3)

- Africa – Molefi Kubuzie
- North America – James Gavin, Brendan Gallagher, Kyle TenHuisen
- South America – Eduardo Rottman
- Asia/Oceania – CK Lau, Sandip Kumar Deb, Kim Hildebrandt, Leo Lo
- Europe – Ludmila Simonova, Becky Gaughan, Charles Golding, Paloma Arnaiz
- Middle East – Paakow Winful, Ron Cohen-Seban

IVS Agenda Consultation

- IVS Agenda Consultation Responses Discussion - Kim Hildebrandt
(Commercial real estate valuations_ insights from on-site inspections)

ECB Supervision Newsletter

- ECB Supervision Newsletter - All
(Commercial real estate valuations: insights from on-site inspections)

Inspections Perspectives Paper

- Inspection Perspective Paper Responses - All
(2024.10.10. Consultation responses to IVS Inspections Perspectives Paper)

Perspectives Papers Update

- Prudential Value Perspectives Paper Update - Alexander Aronsohn
- Listed vs Unlisted Perspectives Paper Update - Kim Hilderbrandt

IVSC Hong Kong AGM

- IVSC Hong Kong AGM Agenda Discussion – All
(Advisory Forum Agenda - AGM 2024 .2)

Administration

- IVSC TAB Working Groups Update - Kim Hilderbrandt/Alexander Aronsohn
(2024.10.09. IVSC TAB Working Groups)
 - A. TAB MV and Prudential Value Working Group
 - B. TAB ESG Working Group
 - C. TAB Inspection Working Group
 - D. AI Working Group
- SRB Conference Call Update - Kim Hilderbrandt/Alexander Aronsohn
- Stakeholder Engagement/Outreach - All
- AOB – All

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

Administration

Administration. Welcome and Attendance (2024.10.09. IVSC TAB Conference Call Agenda Final PDF)

KH welcomed the Board thanked them for attendance.

Next steps

None

IVSC TAB Meeting Update September 2024 (IVSC TAB Meeting Update September 2024 Final)

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.

Global Insights & Markets Update

Around the World – Markets Update 2024 – Prudential Value (2024.09.19. BoE and Prudent Value and 2024.09.19. PS9 24 – Implementation of the Basel 3)

KH advised that he had sent the following email to the TAB to aid discussion:

Per the European Central Bank (ECB) – Banking Supervision – Supervision Newsletter dated 14 August 2024:

“With effect from 1 January 2025, Article 229 of the CRR indicates that the “value” of immoveable property collateral must still be appraised by an independent valuer, while also specifying additional requirements, such as:

- *the value must exclude expectations of price increases;*
- *the value is adjusted for the potential for the current market value to be significantly above the value that would be sustainable over the life of the loan;*
- *the value is not higher than the market value (where this can be determined).*

This change does not imply that a completely new valuation approach is needed, but it does introduce key new requirements to ensure a prudent and conservative value assessment.”

In contradiction to this position within the EU is the most recent Policy Statement (PS9/24 – Implementation of the Basel 3.1 standards near-final part 2) released by the UK Prudential Regulatory Authority (PRA) on 12 September 2024 which stated:

“Prudent valuation criteria

2.231 The PRA agrees with respondents that the proposed requirement to adjust a valuation to reflect the value of the property that would be sustainable over the life of the loan could be complex for firms to operationalise and may lead to inconsistent approaches. Having considered the responses, the PRA has amended its draft rules to remove this requirement.”

Whilst the position of a prominent regulator in the UK PRA would appear at a distance to affirm the primary concern held by the IVSC's Tangible Asset Board (TAB) regarding the Prudential Value concept which is welcomed, it now creates a deep chasm of differentiation between the UK and EU regarding the implementation of a Prudential Value concept for real estate. Arguably, the Prudential Value concept can now be implemented in the UK using a “market value” concept, but this important deviation by the UK PRA will now likely mean that the UK and EU will:

- Interpret the Prudential Value concept differently.
- Provide different guidance to valuation stakeholders on the concept.
- Implement different frameworks when the concept takes effect.
- Seek to build different datasets to enable its implementation.

This deviates materially with the intentions of the Prudential Value concept originally put forward by the BCBS in 2011.

Following the IVSC's news release on this item on 31 July 2023 (<https://www.ivsc.org/prudential-property-value-our-efforts-to-ensure-transparency-and-consistency/>), at best this now creates a heightened level of concern for valuation stakeholders as a result of likely inconsistencies that will be generated across jurisdictions. Whilst the IVSC is still seeking to engage with stakeholders on the UK PRA's Policy Statement, the following would appear to represent possible paths forward for the IVSC's TAB:

- Engage with the UK PRA to understand the reasons behind coming to the current decision in 2.231 (already seeking to do this).
- Engage with the EU to highlight the position taken by the UK PRA, and the significant concerns this now presents valuation stakeholders, with the aim of lobbying for change.
- Re-engage with the BCBS to highlight the different positions now being taken by prominent regulators as a result of this deficiencies in the current Prudential Value concept.
- All (or any combination) of the above.
- None of the above (leave it to other stakeholders move this agenda item forward).

Having consideration to each of the above, constructive discussion is welcomed to collectively consider the IVSC TAB's next steps on Prudential Value.

KH advised that the BCBS is intending to implement Property Value/Prudential Value in EU and the UK.

KH further understand that he struggled with the following ECB requirement:

"the value is adjusted for the potential for the current market value to be significantly above the value that would be sustainable over the life of the loan;"

KH added that this requirement seemed to include an element of forecasting and as such can't be implement by valuers.

KH advised that the UK Prudential Regulatory Authority (PRA):

"Prudent valuation criteria

2.231 The PRA agrees with respondents that the proposed requirement to adjust a valuation to reflect the value of the property that would be sustainable over the life of the loan could be complex for firms to operationalise and may lead to inconsistent approaches. Having considered the responses, the PRA has amended its draft rules to remove this requirement."

KH added that arguably this meant that in the UK you could implement the Prudential Value concept using Market Value.

KH added that the divergence between EU and UK requirements in relation to Prudential Value meant that if you were valuing a portfolio for Europe and the UK the value may have to value the assets in different ways according to their location.

KH further added that the difference between EU and UK requirements would arguably create greater confusion and less consistency between markets.

KH also added that he had proposed the following 5 potential next steps in his email:

- *Engage with the UK PRA to understand the reasons behind coming to the current decision in 2.231 (already seeking to do this).*
- *Engage with the EU to highlight the position taken by the UK PRA, and the significant concerns this now presents valuation stakeholders, with the aim of lobbying for change.*
- *Re-engage with the BCBS to highlight the different positions now being taken by prominent regulators as a result of this deficiencies in the current Prudential Value concept.*
- *All (or any combination) of the above.*
- *None of the above (leave it to other stakeholders move this agenda item forward).*

KH added that from his perspective the option of doing nothing was unlikely.

KH asked for the TAB to focus on Prudential Value when giving their round the world summary.

- *North America*
Brendan Gallagher,
 - BRG advised that that from an Asian, US and Australian perspective it seems that nothing will be done in relation to Prudential Value.
 - BRG advised that the previous Enews item on Prudential Value had raised some concerns.
 - BRG felt that the IVSC could be an important voice in the discussions on Prudential Value.
 - BRG had added that some VPO's had taken Prudential Value as a given and run with it, but he did not want the IVSC to do that.
 - BRG felt that further clarification could come from the regulators in relation to the implementation of Prudential Value.
 - BRG added that he deferred to EU and UK Board members as Prudential Value would have an impact within their markets.

- *South America*

Eduardo Rottman

- ER advised that he had checked with the Brazil Housing Finance and with the relevant authorities in Mexico and Columbia and none of these authorities were intending to implement Prudential Value.
- ER added that in South America the Banking Community was not in line with the concept of Prudential Value and valuers were expected to provide Market Value for secured lending instructions.
- ER further added that if markets were overheating the bank would adjust the LTV ratio.
- ER also added that considering the lack of comparable data within some markets within South America providing a Market Value was challenging in itself.
- ER advised that he did not feel that Prudential Value should be a burden for or the responsibility of the valuer.
- ER further advised that in South America valuers carrying out market analysis and provide market information on the property cycle and other matters and in his opinion that was sufficient.
- ER also advised that he did not feel that Prudential Value was required and did not think that this would be implemented in South America.
- ER added that Prudential Value was not on the radar in South America at the moment.

- *Asia/Oceania*

CK Lau

- CK advised that in Hong Kong they had not seen any discussions in relation to Prudential Value.
- CK further advised that in Hong Kong the LTV was used as a counter market measure.
- CK also advised that depending on the market cycle the LTV could range between 50% and 90%.
- CK added that they had noted all the discussions in relation to Prudential Value, but he was still not sure how this would work in a market where you are not expecting price increases.
- CK further added that he did not think the Hong Kong market would embrace this concept as they already had their own market mechanism for overheated markets through adjusting LTV.
- CK suggested that the IVSC need to voice their concerns.
- PW commented that every other market with the exception of EU and the UK seemed to be pulling in the same direction.
- PW added that the IVSC should engage with stakeholders.

Kim Hildebrandt

- KH commented that the first requirement that *"the value must exclude expectations of price increases"* seemed to be workable though there may be an issue with terminal value.
- KH further commented that when he first saw the concept of Prudential Value, he did not understand why it was needed as it would be easier to adjust the LTV ratio,
- KH also commented that the IVSC could provide an update via Enews but added that he was reluctant to provide guidance as there was currently too many factors that were unknown.
- KH added that from his perspective regulators should deal with the confusion and that he did not feel that it was the IVSC's roles to put forward solutions though he accepted that the IVSC could voice concerns.
- KH noted that there was potential for Prudential Value to be rolled out into other markets.
- KH added that IVSC could play some sort of role, but he felt that IVSC was limited in terms of what it should do as it was not the responsibility of the IVSC to provide a solution.

- *Europe*

Ludmila Simonova

- LS advised that Prudential Value was a hot topic in Ukraine and a lot of valuers were saying that they could not carry out a Prudential Valuation without receiving guidance from the IVSC.
- LS further advised that valuers wanted guidance on the methodology for Prudential Value so they can pass this guidance to the Ukrainian National Bank.
- LS advised that as Ukraine received a lot of investment from Europe the issue of Prudential Value was very important.
- KH advised that the IVSC was still in a position where they trying to engage with the relevant authorities to get clarification on Prudential Value and were not in a position to issue a perspectives paper.
- LS advised that she understood that it was hard to issue a perspectives paper but suggested that the TAB could issue a perspectives paper similar to the one sent to the Bank of England.
- LS further advised that the perspective paper could be quite simple and could just give the valuer general advice such as don't inflate cost without price.

Charles Golding

- CG advised that he was not the RICS lead on this project and within the RICS this project was being led by Jonathan Fothergill.
- CG further advised that the RICS had put out a statement on Prudential Value that sets their position in relation to the PRA in the UK and the EU.
- CG also advised that the RICS tried to keep their policy statement as up to date as possible.
- CG added that anecdotally no market is taking Prudential Value forward to the same extent as the EU.
- CG further added that long term value is already embodied in EU legislation.

Paloma Arnaiz

- PA advised that AEV already use Mortgage Lending Value (MLV).
- PA further advised that AEV does not have the appetite for Prudential Value in Spain as it is hard to determine and could lead to inconsistent practices.
- PA also advised that MLV works with MV, and she would expect Prudential Value to do the same.
- PA recommended that the TAB should either carry out all the suggestions listed above or none of them.
- PA advised that this topic was especially important in the EU as there was no homogeneity.
- PA further advised that countries within Europe with MLV will probably use MLV for Prudential Value.
- PA also advised that for European bank portfolios this topic is particularly relevant.
- PA felt that the IVSC need to speak to the relevant regulators as the IVSC has already tried to engage with the Basel Committee and had received no response.
- PA also felt that the most recent EU Policy Statement could be interpreted several ways and maybe this does not have to be done by the valuer and perhaps this is the point of view of the Basel Committee.
- PA added that she did not understand why the Basel Committee was not concerned about this issue as she did not see this issue as being the valuers problem.
- KH commented that this was a good point and to a certain extent the TAB needed to see how this issue played out.
- KH added that anyone about to implement Prudential Value should check their instruction.

- CG commented that the statement seemed to imply that it was the responsibility of the valuer though the concept of individual valuer still needed to be defined.
- *Middle East*
Paakow Winful
 - PW advised that Prudential Value was not currently being considered in his market.
 - PW further advised that he did not feel that the IVSC could remain silent on this issue.
 - PW felt that it was not the role of the IVSC to take a position in relation to Prudential Value, but he did feel that the IVSC should try and get clarity and inform the market of the current situation via IVSC Enews,

Ron Cohen-Seban

- RC advised that Prudential Value was not currently being considered in Israel.
- RC asked whether IVSC should undertake further lobbying and engagement or whether this should be left to member organisations.
- RC said that it was not the role of the IVSC to provide guidance on how to implement Prudential Value as this was more the role of the VPO's.
- RC further said that the IVSC should publish a valuer alert stating that this is not an IVS Bases of Value and for IVS compliant valuations valuers should use Market Value for secured lending.
- RC also said that he was supportive of the IVSC reengaging with regulators.

Summary

- KH summarised the discussions and advised that the TAB should carry out the following steps;
- KH added that AA and KH would try to engage with Ragveer Brar of the Bank of England to see if they could get more insight on the PRA statement in relation to Prudential Value.
- KH advised that in the interim the TAB would publish an article in Enews to advise valuers within the EU and UK of the current situation in relation to Prudential Value.
- KH further advised that given the importance of regulators the TAB would need to run the Enews statement past the Nick Talbot and the SRB
- KH advised that in the event that the TAB decided to engage further with regulators, consultation with the Trustees would be required.

Next steps

KH and AA to draft a statement on Prudential Value to be published in Enews and to run the statement past the SRB and Nick Talbot prior to publication.

IVS Agenda Consultation

IVS Agenda Consultation Responses Discussion (01.10.2024 - IVS Agenda Consultation Responses)

The Board was advised that the IVSC had received 312 responses so far and that the breakdown of responses was as follows:

- 111 responses (107 on the website, 3 by letter and 1 verbal)
- 116 responses from roundtable 1
- 85 responses from roundtable 2

The Board was further advised that though the consultation officially closed on the 9th October the IVSC was expecting further responses over the next two weeks.

The Board was also advised that AA would prepare an updated response spreadsheet for the Boards' to consider during the Hong Kong meeting over the next two weeks.

The Board was informed that the primary focus of the TAB over the next few months would be reviewing the IVS Agenda Consultation responses.

The Board was informed that from feedback received during the two round table webinars it appeared that Insurance and Valuation Reviews were two key topics to be considered by the TAB.

ER advised that UPAV had still not submitted their response but would distribute their response over the next two days.

ER further advised that UPAV was working on a specific standard for Insurance valuations that will be presented at the forthcoming UPAV conference.

AA asked ER if he could provide a copy of the UPAV Insurance standard so this could be considered by the TAB when discussing future potential revisions to the tangible asset chapters within IVS.

The Board was advised that any responses provided by IVSC Board members would be anonymised prior to sharing the responses with the general public.

The Board was further advised that there were a number of comments in relation to the use of Artificial Intelligence and AVMs.

KH advised that the CBVI had issue a good primer on Artificial Intelligence and further advised that Aswath Damodaran had published a good article on this issue. (<https://www.stern.nyu.edu/experience-stern/faculty-research/navigating-ai-hype-cycle>)

PW advised that Taqueem would be issuing their response within the next few days.

LS advised that she had submitted a response and wanted to check that it had been received.

AA advised that he had not yet had the chance to review the responses submitted over the past few days.

LS also suggested that Insurance valuations should also consider damaged or destroyed assets and suggested that the title should be changed from Insurance Valuation to Damaged or Destroyed Assets.

Next steps

AA to distribute revised consultation responses in advance of the Hong Kong meeting for the TAB to consider and review.

ECB Article

ECB Article (Commercial real estate valuations insights from on-site inspections)

The Board was informed that the ECB article contained a number of minor inaccuracies in relation to Highest and Best Use and it appeared that they were probably thinking of Investment Value when referring to HBU.

The Board was further advised that there were also some minor inaccuracies in relation to the difference between Market Value and Fair Value.

The Board felt that there was no need to provide further feedback to the EBA at this point in time as on the whole it was a good paper with several references to IVS.

Next steps

None.

Inspections Perspectives Paper

Inspection Perspective Paper Responses (2024.10.10. Consultation responses to IVS Inspections Perspectives Paper)

The Board was advised that the inspection perspectives paper had been positively received.

The Board was advised that the TAB had received a number of responses in relation to Inspections that needed to be digested before the Hong Kong meeting.

Next steps

TAB to read the Agenda consultation responses on Inspection in order how to discuss how to implement these recommendations within IVS.

Perspectives Papers Update

Prudential Value Perspectives Paper Update

The Board was advised that this issue had already been discussed under the Global Insights and Markets Update.

The Board was further advised that as discussed, the TAB was not planning to proceed with a perspective paper at this point in time.

Next steps

None.

Listed vs Unlisted Perspectives Paper Update

The Board was advised that an updated raft perspectives paper had gone to the SRB for consideration and review.

The Board was further advised that though this was an SRB perspectives paper the Asset Boards would be provided with the opportunity to comment on this perspectives paper.

Next steps

None.

IVSC Hong Kong AGM

IVSC Hong Kong AGM Agenda Discussion (Advisory Forum Agenda - AGM 2024 .2)

The Board was advised that KH had drafted a provisional agenda.

The Board was further advised that the agenda would include a brief around the world summary.

The Board was also advised that he was keen for the TAB to think about potential future revisions to IVS 300, IVS 400 and IVS 410.

The Board was informed that the main focus of the agenda would be the IVS Agenda consultation responses.

The Board was further informed that the TAB would have an informal dinner on Tuesday 19th November and that there would be a Gala Dinner on at the Hong Kong Jockey Club on Wednesday 20th November.

The Board was also informed that the agenda and attachments would be distributed approximately a week before the AGM.

Next steps

AA to distribute the IVSC TAB Hong Kong Agenda a week before the AGM.

Administration

IVSC TAB Working Groups Update (2024.10.09. IVSC TAB Working Groups)

A. TAB MV and Prudential Value Working Group

The Board was advised that the working group was meeting later that day and would be considering issuing a statement on Prudential Value within Enews.

B. TAB ESG Working Group

The Board was advised that the perspective paper on ESG and Real Asset Valuation was published in the September Enews.

C. TAB Inspection Working Group

The Board was advised that the working group was considering the responses received in relation to the perspectives paper.

D. AI Working Group

The Board was advised that the working group was currently on sabbatical while the working group was awaiting responses from the IVS Agenda Consultation.

SRB Conference Call Update

The Board was advised that the SRB was due to meet later that day, and the main topics of discussion would be the IVS Agenda Consultation responses and valuation risk.

Stakeholder Engagement/Outreach

The Board was advised that the V20 Valuation Conference was held in Sao Paolo.

ER advised that the conference was very successful and that NT and some members of the IVSC Boards attended the conference.

ER further advised that there were 250 attendees from 6 different countries and there was also a good attendance from the Kingdom of Saudi Arabia.

ER also advised that the next V20 conference would be in South Africa, and this would be followed by the USA.

ER asked the TAB to advise him of any important topics that should be raised at the next V20 meeting.

The Board was advised that KH, PW and AA would be presenting to Taqueem on the topic of inspections over the next few weeks.

Next steps

TAB to advise ER of any important topics to be included in the next V20 meeting.

AOB

There was no other business, so KH ended the meeting.

Next steps

None.