

# International Valuation Standards Committee

5 November 2001

Association for Investment Management and Research  
Professional Standards & Advocacy Department  
Reference: Real Estate Provisions of GIPS  
P.O. Box 3668  
Charlottesville, Virginia 22903  
USA

Copy sent by email to: [standardsetting@aimr.org](mailto:standardsetting@aimr.org)

Dear Sir,

## **Re Invitation to Comment: The Addition of Real Estate Provisions and Guidance to the GIPSTM Standards.**

The International Valuation Standards Committee is pleased to have the opportunity to respond to the Investment Performance Council of the AIMR consultation exercise. We first set out our own credentials, then our response addresses the specific questions under the heading 'Comment Requested' and finally elaborates with other general observations.

### **International Valuation Standards Committee (IVSC).**

1. The IVSC is an unincorporated association comprising professional valuation associations from some 50 countries. The IVSC is an NGO (Non Government Organisation) member of the United Nations. IVSC maintains liaison with international agencies, such as the Organisation for Economic Co-operation and Development (OECD), the World Bank, the International Monetary Fund, the World Trade Organisation, the European Commission, and the Bank for International Settlements. The IVSC also maintains a close relationship with other international organisations that promulgate international standards and best practice guidance, notably the International Accounting Standards Board, the International Federation of Accountants, and the Basel Committee for Banking Supervision. International valuation and accounting standards are now inextricably linked through the recent IAS 40, *Investment Property*. The 'fair value' as it relates to property is defined in substantial detail in IAS 40. In the appendix to IAS 40 the IASB states that it considers its concept of fair value to be similar to the IVSC concept of market value. It also acknowledges that the guidance on the measurement of fair value was developed with the assistance of the IVSC and that the guidance is in substance (and largely in wording as well) identical with guidance in International Valuation Standards.

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2. The IVSC has published International Valuation Standards (IVS) since 1985. The Standards, and accompanying Guidance, reflect the collective thoughts, experiences, and professional judgements of Valuers from some 50 countries. A number of national standard setters have announced their intention to adopt the International Valuation Standards in place of current national standards and supplemented only by national specific guidance. To some extent this decision has been driven by the growing acceptance of International Accounting Standards within the countries concerned. This position has been taken by the Australia/New Zealand Valuation and Property Standards Board. The Royal Institution of Chartered Surveyors has stated its intention of adopting International Valuation Standards for an imminent revision of the Red Book that will impact on valuers in both the UK and Republic of Ireland. A number of developing countries who have either ill-defined or no national valuation standards are also adopting IVS.

3. In January 2000, the IVSC commenced a three year Standards Project with the objective that by 2002, the IVSC will have published a set of comprehensive and robust international standards that will facilitate cross-border transactions involving property and contribute to the viability of global markets by promoting transparency in financial reporting. The Standards issued under the Project represent an enhancement and reorganization of earlier editions of IVSC Standards to better conform to related international standards, notably International Accounting Standards. A copy of the 2001 edition of International Valuation Standards, launched in July 2001 has been sent to the AIMR Professional Standards and Advocacy Department. Additional copies can be made available to members of the Subcommittee.

4. The development of International Valuation Standards is supported financially by a number of organisations (see attachment), some of whom will have very strong links with the AIMR. These organisations, the IVSC and the AIMR share a common vision of financial information that is transparent, reliable and comparable across geographic borders.

5. The IVSC is committed to the development of International Valuation Standards that support disclosure frameworks being developed by other international organisations. As already stated, our standards have been acknowledged by the International Accounting Standards Board in IAS 40, Investment Property. We note the support of the Financial Accounting Policy Committee (FAPC) of AIMR for the measurement of investment property at Fair Value in their response to Exposure Draft E64, Investment Property. Further the Global Financial Reporting Advocacy Committee of the AIMR expressed its strong support for the efforts of IASB to procure convergence of international accounting standards and practices to one high quality standard in its response to the US SEC Concept Release in June 2000. We would point out that Fair Value is an accounting concept not always well understood outside the confines of the accounting profession. IVS go to some lengths to reconcile the concept of Fair Value with that of Market Value, the concept adopted by valuers. By linkage to IVS, GIPS are spared the necessity for any further explanation.

6. The IVSC also works with the Basel Committee on Banking Supervision and presented a detailed response to the second consultation on a New Basel Capital Accord, May 2001. The British Bankers' Association and London Investment Banks Association called on

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the Basel Committee to work with the IVSC “to enable criteria to be established which will lead to a reduced LGD (loss given default) for commercial property lending” in its response to the second consultation.

### **Response to Comment Requested.**

Do you support AIMR’s effort to develop global real estate provisions to be added to the GIPS standards?

- IVSC wholeheartedly supports the development of global real estate provisions to be added to the GIPS standards. We observe that such standards would be immeasurably strengthened by explicit linkage to International Valuation Standards (IVS). This would relieve GIPS, and its users, of having to set its own definitions and procedures which would replicate much of what is already included in IVS.

Do you agree with the valuation requirements and recommendations, including the eventual acceleration of the frequency of both the valuation review and independent appraisals?

- IVSC supports the acceleration of the frequency of independent appraisals. Before adopting a specific frequency of valuation, IVSC suggests more research be conducted to establish the accuracy and reliability of valuations when conducted at intervals as frequent as quarterly. There is already existing research in the UK<sup>1</sup> and US<sup>2</sup>.

Do you support the additional disclosures proposed for direct and indirect real estate investments?

- IVSC supports full disclosure of valuation methods and procedures where these are helpful to the understanding of property performance. It should be understood that reported valuations are the valuer’s opinion and may have been arrived at by observations drawn from an amalgam of methods.

Should the IPC consider including these real estate provisions in the GIPS standards as soon as possible after the public comment period or should they not be added until 2005 to allow all countries time to implement GIPS?

- IVSC understands the need for the GIPS Standard to have a period of stability whilst wider implementation takes place. Matters which are largely administrative and represent good practice already in general usage would be easily implemented. Accordingly IVSC would encourage AIMR to embrace the linkage to International Valuation Standards forthwith which would provide standards immediately upon adoption.

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<sup>1</sup> Client Influence in the Performance Measurement Valuation Process. Baum, Crosby, McAllister, Gallimore and Gray. IRES-Alaska 2001

<sup>2</sup> Smoothing in Commercial Property Valuations: Evidence from Individual Appraisals. Clayton, Geitner and Hamilton. Real Estate Economics 2001 V29 pp337-360

Should AIMR consider any other methods for meeting the objectives of developing global real estate provisions for the GIPS standards?

- IVSC has no specific recommendations

### **General Comments.**

1. We note that under its terms of reference the Real Estate Subcommittee was charged with considering the issue of global valuation practices. The Subcommittee stated that whilst it was confident in its ability to submit a comprehensive proposal of minimum GIPS real estate provisions, it was also aware of significant issues that will continue to challenge the presentation of real estate performance now and in future years. One such issue identified was 'real estate valuation practices'. In a later report, the Subcommittee reported that 'valuation standards, methodologies, and prevailing practices will likely vary widely between countries. Guidance may be required to define the minimum expectations for an independent appraisal.'
2. We would imagine that GIPS would prefer to focus its attentions to matters of reporting investment performance and avoid having to digress into matters of valuation practice. In order to achieve this there are distinct advantages in linking in to existing valuation standards. IVSC would commend to AIMR that they structure their proposal to recognize throughout that valuations will reflect International Valuation Standards.

2.1 Notwithstanding, at a detailed level, at 6.A.1 the GIPS proposal refers to "Market Value". No definition is given and no cross-reference is made. The IVS definition of Market Value is widely adopted globally and incorporated into many national standards. However, in those countries that have not adopted the IVS definition, "Market Value" can be interpreted very differently. This is perhaps best illustrated by reference to European countries. In the UK, 'open market value' represents the top bid which could be 'reasonably expected'. Germany epitomises the contrast, where the *Verkehrswert* definition equally clearly involves seeking the average or repeatable bid as representative of exchange price. In Belgium and Portugal, although a best price definition is used, in practice average price is often reported. Contrastingly, in the United States "Market Value is the "most probable price".

2.2 Paragraph 6.A.2 mentions professional designation, certification and licencing of valuers. This subject is dealt with in IVS under Code of Conduct para 3.3. We consider that, taken in the context of the whole, the Code of Conduct more amply fills the need of GIPS in terms of general ethics and competence. Under Definitions, Professionally Designated, Certified or Licenced Valuer/Appraiser, the proposal pays specific recognition to some individual professional bodies. We would commend caution against such overt recognition which could stand the danger of conflicting with national or regional legislation. IVS therefore advisedly adopts the concept of a valuer being a member of a "recognised national professional valuation body".

2.3 In the summary to the proposal the terms "independent" and "external" appear several times and apparently interchangeably. These definitions are dealt with in IVS

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under Code of Conduct paras 3.3 to 3.6. There is a further possible connotation which is "Independent" (note the capital I). The Royal Institution of Chartered Surveyors (RICS), the valuation standard setters for the UK, give a particularly restrictive definition to "Independent" which differs from "independent" and accords more closely with the definition given for Independent Valuation in the GIPS proposal. At present IVS does not adopt such a tightly drawn definition nor distinction between degrees of independence. However, were GIPS to embrace IVS, then we feel sure that this issue could be examined further and addressed. We would also point out that the Code of Conduct deals at length with the subjects of Ethics and Disclosure.

2.4 Under Definitions the proposal defines External Valuation and Independent Valuation. Neither of these definitions coincide precisely with IVS definitions, nor indeed with definitions in any of the established national valuation standards. In view of distinctions already made within the valuation profession we believe it is important that GIPS pays special attention to the use of case in using any definitions. If they wish to rely on their own definitions they should continue and define independent and Independent valuer as well as external valuer. In conclusion, we feel that by adopting their own, and different, definitions GIPS will merely add to an already somewhat confused situation amongst national valuation standard setters which is precisely one reason why the principal ones are cooperating in the support and development of International Valuation Standards.

## **Conclusion**

In conclusion, so long as property ownership cannot be fragmented and traded immediately as freely marketable units, the only way to overcome the difficulties, and to produce credible measures of property performance, is to apply consistent standards of valuation on a global basis. We consider that AIMR and IVSC share common objectives with regard to the consistent and reliable measurement of property on a global basis.

We hope you will find our comments helpful and that this may open and continue a longer dialogue between AIMR and IVSC to their mutual benefit. The IVSC is keen to ensure that its standards meet the needs of the investment community and we would be delighted to receive your comments on the International Valuation Standards 2001 edition.

Yours faithfully



**Greg McNamara, LFAPI, A.I.Arb.A**  
Chairman, International Valuation Standards Committee

**5 November 2001**

**ATTACHMENT**

## **IVSC Sponsors**

The IVSC acknowledges the financial contributions towards the IVSC Standards Project received from the following organisations:

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