

THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

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Meeting Paper 7-A

Promoting a common approach and protocol towards adopting internationally recognized and accepted valuation standards

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PURPOSE For consideration.

ISSUE Promoting a common approach and protocol towards adopting internationally recognised and accepted valuation standards

BACKGROUND At meeting in Singapore a paper was presented making the case for Internationally Recognised and Accepted Valuation Standards and the role of the International Valuation Standards Council (IVSC) as the global standards setter. Valuation plays an important role in financial markets as the basis for investment decisions, measuring performance and disclosure in financial reporting and contributes to the development and stability of financial systems. This role can be enhanced by addressing important challenges –a fragmented professional and regulatory landscape, the multiplicity of bodies producing regulations related to valuation and the lack of professional infrastructure and common benchmark for the profession.

PROPOSAL

It is proposed that a Task Force be set up to develop recommendations over the next few months, to be considered at a half day workshop on the sidelines of the first or second ABAC meeting in 2014 and the proposals finalised for endorsement by the Advisory Group and ABAC. In parallel the IVSC could run a symposium to foster collaboration, and identify challenges.

***DECISION
POINT***

Endorse the proposed work.

**Promoting a common approach and protocol towards adopting internationally
recognised and accepted valuation standards**

Nicholas Brooke, SBS, JP, BSc, PPRICS, FHKIS

At the last meeting of the Advisory Group in Singapore I presented a Paper making the case for Internationally Recognised and Accepted Valuation Standards and the role of the International Valuation Standards Council (IVSC) as the global standards setter. A copy of that Paper is attached for Members information and reference.

The main purpose of involving IVSC and adopting its standards are:

1. IV Standards are global, developed by an independent Board of valuation standard setters from all over the world;
2. IV Standards are technically well founded and subject to transparent and rigorous due process;
3. The work of the IVSC standard setting boards are subject to independent oversight and governance;
4. The work of the IVSC and the IV Standards have already gained a large measure of professional and regulatory acceptance in the region;
5. The IVSC and the IV Standards have gained formal recognition, as evidenced by Memoranda of Understanding with other standard setters such as the IASB and with IFAC;
6. IV Standards are already widely recognised and applied in the Asia Pacific region.

I understand that the Advisory Group has included the topic of valuation in its ongoing Work Plan recognising the importance of the role of valuation in financial markets as the basis for investment decisions, measuring performance and disclosure in financial reporting. I believe it recognises that the contribution of valuation to the development and stability of financial systems can be increased by addressing important challenges –a fragmented professional and regulatory landscape, the multiplicity of bodies producing regulations related to valuation and the lack of professional infrastructure and common benchmark for the profession.

I would suggest that the Advisory Group now needs to examine how the public and private sectors can collaborate in APEC to support the development of high quality valuation, ethical, educational and related quality assurance and disciplinary standards based on global benchmarks.

Some of the challenges to be overcome:

- Although there is plenty of national legislation and regulation around valuation, it tends to be specific to a particular activity and asset type. Thus within a single country different government departments and agencies have developed fragments of valuation regulation independently with little or no coordination. Addressing this is likely to be very difficult unless there is overarching policy at government level to adopt international valuation standards.
- Historically the organisation of the valuation profession has also been fragmented by asset type, geography or both. Many professional institutes have historically set their own standards for their members and are reluctant to pass this responsibility to an international organisation

- There is a lack of capacity in valuation profession within both emerging and developed economies. Although there are a number of strong property valuation bodies in the region,
- There are fewer bodies dealing with business and intangible asset valuation and an absence of a financial instrument valuation profession. There needs to be a coordinated approach to building a robust valuation profession. Twinning arrangements and capacity-building projects together may provide a way to strengthen the profession.

This is no small undertaking and requires cooperation among a variety of institutions, agencies, the valuation profession, together with relevant multilateral and standard setting bodies and other institutions that can provide expertise. To begin the process, I would propose we should identify interested parties and invite them to join a Task Force, the responsibility of which would be to develop recommendations over the next few months. These recommendations could then be considered at a half day workshop to be held on the sidelines of the first or second ABAC meeting in 2014 and the proposals finalised for endorsement by the Advisory Group and ABAC. In parallel the IVSC could run a symposium to provide a platform for those Asian-based stakeholders who may not be party to the ABAC/APEC discussions to share ideas, to foster collaboration, and to identify from their perspective some of the challenges to be anticipated in developing a strong valuation profession in the region based on international standards and these inputs could also be fed into the work of the Task Force.

At the same time, to send a strong signal to the rest of the world of APEC's recognition of the importance of valuation and its commitment to adopt international standards to the international community, it would be beneficial if APEC economies, through their membership of other international bodies such as G20 and FSB, could let it be known that they are supportive of an initiative of this nature in reinforcing financial capacity building in the region.

ANNEX

Paper Presented at the Advisory Group Meeting in Singapore An Introduction to the International Valuation Standards Council and the Case for Internationally Recognised and Accepted Valuation Standards

Valuation has historically been an activity of the financial system that has been taken for granted or even overlooked. This is in spite of valuation being used as the basis for many significant investment decisions, for measuring performance and increasingly as a measurement basis or required disclosure in financial reporting.

However, pressure is building for change as valuation becomes recognised as an important element of the financial markets and that proper standards and effective regulation are necessary for improved financial stability.

For instance, many of the numerous inquests into the 2008 financial crisis discovered the importance of valuation. At its April 2009 meeting the G20 leaders identified the need to improve standards for valuation.

The IVSC

The International Valuation Standards Council is a not for profit corporation registered in the USA but headquartered in London chaired, since October last year by . Sir David Tweedie (former chair of the International Accounting Standards Board).

The IVSC is a membership body and its members include the professional valuation institutes from 15 of the 21 APEC countries. All IVSC members have signed up to support and adopt the IVSs and although a number still produce their own standards, a number of the key players have abandoned their standard setting role and adopted the IVSs, or are in the course of doing so for e.g. the Australia and New Zealand Valuation and Property Standards fully adopt the IVS.

The IVSC's objective is to build confidence and public trust in the valuation process by creating a framework for the delivery of credible valuation opinions by suitably trained valuation professionals acting in an ethical manner.

In 2011 twelve new International Valuation Standards were published covering a range of asset types – intangibles, real estate, business interests and financial instruments. The overriding objective of the new standards is to increase the confidence of users of valuation services in valuations on which they rely. The work of the IVSC is not confined to the production and maintenance of the IVS. Its work plan includes projects to develop guidance on best practice in valuation across a number of sectors and for different purposes and to promote high standards of professional behaviour in all valuation, especially those relied on by third parties.

Benefits of IVS and advantages of global valuation standards compared to the present situation:

- Reduces the effects of systemic risks. Inconsistent valuation practice and terminology creates uncertainty for those who rely on valuations and can lead to misunderstandings or inappropriate reliance being placed on valuations. Use of IVS contributes to minimising this uncertainty and reducing risk thus contributing to wider financial stability;

- Contributes to the rigorous and consistent implementation of International Financial Reporting Standards. Many APEC jurisdictions have already adopted IFRSs, while others have made substantial progress in their transitional arrangements. By adopting IFRS, countries addressed inconsistency in financial reporting standards and by doing so they exposed the next layer of inconsistency – valuation standards. Good and consistent financial reporting under IFRS requires good and consistent valuation.
- Provides additional benefits for developing and emerging economies that are looking to establish a robust framework of standards and regulatory arrangements but may not be in a position to develop their own high-quality standards.
- Supports global accounting standards by ensuring that fair value measurements are produced consistently thus increasing cross border comparability and reducing risk of investors being misled by unfamiliar practices or terminology.
- Enables better regulation. In four years that have followed the peak of the crisis there has been no coordination of the various efforts to improve valuation transparency by national and supra national agencies, with the exception of financial reporting where the IASB and FASB have aligned requirements for measuring fair value for accounting purposes.

Again, by way of example, the Asian-Oceanian Standard-Setters Group (AOSSG) which is a grouping of the accounting standard-setters in the Asian-Oceanian region has recognised this for clear and stringent application guidance to ensure that there are not different applications of fair value in different with problems particularly acute in emerging and transition economies.

Advantages of a global profession:

- The lack of recognition of the importance of valuation has resulted in a fragmented professional and regulatory landscape when viewed from a global perspective.
- There is no single valuation voice. As a result, various bodies all produce regulations that include some references to valuation but each use different language – see earlier in paper.
- With no recognised common benchmark for becoming a professional valuer, individuals or firms with no formal training or credentials can describe themselves as such. A lack of any professional infrastructure—whether self-regulated or based on statutory requirements—creates a significant risk for those who rely on valuations for financial decisions, with consequences for wider financial stability.

Some of the barriers to a greater adoption of the IVS are:

- Lack of regulatory backing or focus. Contrast with IFRSs which have spread because either governments through direct legislation or government appointed regulators have required or endorsed their use. Most countries have laws or regulations relating to companies and how and when they produce accounts and therefore there was a clearly defined target (both subject and players).
- In comparison, although there is plenty of national legislation and regulation around valuation, it tends to be specific to a particular activity and asset type. Thus within a single

country different government departments and agencies have developed fragments of valuation regulation independently with little or no coordination. Breaking this is likely to be more difficult unless there is overarching policy at government level to adopt international valuation standards.

- In some countries there are laws that require valuations for certain asset types to be undertaken in accordance with nationally set standards.
- Historically the organisation of the valuation profession has also been fragmented by asset type, geography or both. Many of these have historically set their own standards for their members and are reluctant to pass this responsibility to an international organisation

A strong signal from APEC of the need to support the development of high quality valuation, ethical, educational and related quality assurance and disciplinary standards based on global benchmarks would be very welcome.

The following are examples of APEC countries/organisations recognising the importance of valuation:

China

In late 2009 the Ministry of Finance in China published guidance aimed at developing the valuation profession to meet not only domestic requirements but to provide valuation services globally. The Ministry of Finance through the CAS is a major sponsor and supporter of the IVSC.

Singapore

The Singapore government has recognised that the development of business valuation expertise (especially in the areas relating to intellectual property, brands, corporate finance and arbitration proceedings) is crucial to meet its ambition to become a leading Global-Asia Financial and Business hub.

Hong Kong

Hong Kong Securities and Futures Commission in its Code on Real Estate Investment Trusts (June 2005) permits the adoption of the International Valuation Standards as an alternative to Hong Kong national valuation standards.

India

(i) Securities and Exchange Board of India, draft Regulation (Real Estate Investment Trusts) 2008 stated that “the valuation methodology shall follow the “Valuation Standards on Properties” published from time to time by the concerned Indian Institute or the International Valuation Standards issued from time to time by the International Valuation Standards Council”

(ii) The Handbook on Policy, Standards and Procedures for Real Estate Valuation by Banks and HFIs in India published by the National Bank Association reproduces a significant proportion of the IVS

Asia Pacific

APREA the pre-eminent industry body responsible for the development and promotion of real estate as an asset class within the Asia Pacific region, including real estate investment trusts (REITs), real estate operating companies and business trusts structured to own and develop real estate (real estate organisations) recommends that real estate organisations follow the IVSC standards.