



# XXV FIG Congress

"Engaging the Challenges, Enhancing the Relevance"  
16 - 21 JUNE 2014, MALAYSIA



## PAPER:

### The International Valuation Standards Council – Building Trust in Valuation

(Any views expressed in this paper are my personal, as a practicing Valuer and Property Consultant from Malaysia)

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XXV International Federation of Surveyors Congress, Kuala Lumpur, Malaysia, 16 – 21 June 2014

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## INTRODUCTION

### AIM:

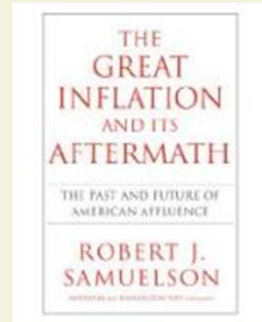
The aim of this paper is to discuss the work of the International Valuation Standards Council (IVSC) in developing high quality international technical and professional valuation standards in response to the challenges posed to the valuation profession as a result of the crisis.

- **Inconsistent and poor valuation practice on financial instruments identified by:**
  - **Financial Stability Forum**
  - **G20**
- **Important contributor to 2008 Global Financial Crisis (GFC)**

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# The Global Financial Crisis

- ‘The Great Inflation and its Aftermath’ by Robert Samuelson.
  - He traced rise and fall of inflation of U.S economy as principal background setting for crisis.

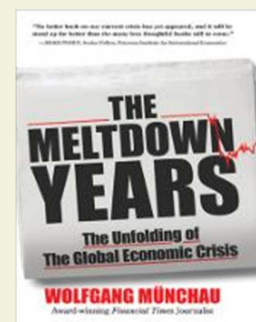


## **CENTRAL MESSAGE:**

- Thinking the world less risky, **people took actions that made it more risky.**
- Pleasures of prosperity **backfired.**
- If lessons of past not properly learnt, **sequel will be even more devastating.**

# “The Meltdown Years” by Wolfgang Munchau

- Martin Feldstein’s **six** “American” reasons for crisis:
  1. U.S interests rates **too low.**
  2. Financial regulation **insufficiently focused.**
  3. Bad housing policies set **wrong incentives.**
  4. Rating agencies **misled investors.**
  5. Banking system failed to properly **account for risk.**
  6. Borrowers taken on **too much debt.**



- Munchau claims such analysis to be; **SUPERFICIAL**

### QUESTIONS ONE OUGHT TO ASK:

1. Why was there regulatory failure?

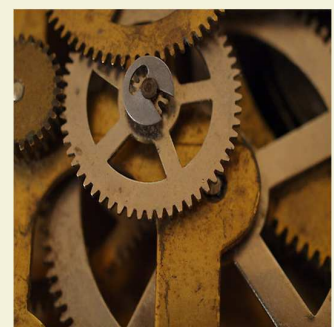


2. Why did people take on so much debt?



## Valuation as a Piece to the Puzzle

- If systemic failure was the cause or a major factor in crisis, then **various components of the global financial system need scrutiny.**
- **Proper valuation framework** is one component of the system. Not only valuation of real estate, also of businesses and financial interests.



## VALUATION USING GENERALLY ACCEPTED PRINCIPLES CENTRAL TO:

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1. Financial **stability**
2. Basis for **decision-making by investors** of all asset classes.
3. Prudential regulators and market participants in **determining capital adequacy** of financial institutions.
4. **Risk management** by financial institutions and other businesses.
5. **Financial reporting** with use of fair value and similar measurements.

## Crisis highlighted..

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1. Importance of establishing **international consensus** around the input assumptions, models and processes involved in valuation.
2. Need for recognising that **improving confidence in valuation methodologies** and practices is key in restoring investor confidence.



## International Valuation Standards Council

- Established in **1981**
- 'New' organisation came into effect January 2009 after major restructure in 2008
- Currently chaired by **Sir David Tweedie**
- Objectives:
  - serving global public interest
  - developing international valuation standards
  - promoting strong ethical values
  - encouraging quality practice
  - supporting development of strong professional valuation organizations



## International Valuation Standards

**Valuation Standards** are important because :-

- a. they enable industry-wide valuations at **high levels of integrity and competence.**
- b. **robust and continuously updated** valuation standards play a crucial role.
- c. enunciate principles of valuation and support **best practices.**
- d. **duty of care** a professional Valuer owes to his client, reliant third parties and public at large.
- e. support **efficient real estate markets.**
- f. support **efficient functioning of market based economies.**

## VALUATION UNDERPIN THE BANKING SECTOR:

- Loan securities depend on **proper valuations**
- Need for **periodic updates to be better coded** into the system because of time-specificity of valuations
- System should detect bad valuations at early stage, **before loan approval.**



- A set of robust and continuously updated set of valuation standards **benefits** Valuer as well as client, reliant third parties and public.
- The economic and financial crisis has led to demands to apply **consistent standards** of valuation on a global basis.





- IVSC aims to secure **convergence of pre-existing statutory standards with the IVS** by identifying concepts and principles applicable to all types of valuation.
- This improves **consistency, transparency and confidence** in valuation process in the region.



## Development of the Valuation Profession Globally

- Many post-crisis regulatory reforms recognize **importance of valuation profession** in ensuring skills, competencies and ethics are practiced in applying International Valuation Standards.
- The **skill and experience of the valuer** is a major factor contributing to valuation uncertainty.



## IVSC responds by..

- Providing definition of 'professional valuer'
- Providing international benchmark standards on pre-qualification education
- Training of professional valuers
- Continuing professional education
- Develop International Professional Standards for Valuers

## CONCLUSIONS

1. Valuation framework need to be further **refined and developed** to better fit into new global financial architecture.
2. Need for **robust valuations**.
3. **Continuously updated standards** and best practice guidelines are key to efficient functioning of property markets.
4. IVSC has made important start for **valuation of financial interests**.





5. **Continued need for supporting valuations** in particular, mark-to-market valuations, due to Fair Value Revolution.
6. Though still in infancy, **valuation profession will grow substantially important**, post crisis.



7. There are signs that major players coalescing around IVSC.
8. Valuation profession needs to **place trust in IVSC** and **increase public confidence** in work by raising standard of valuation.



# THANK YOU

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