



# Valuology

**We know this time of the year is often hectic for those who provide or rely on valuations so we have put together a short overview of some recent matters of relevance to providers and users of valuations which we hope are of interest. We wish you a peaceful Christmas and trust that 2026 brings you everything you wish for.**

## **Keeping up with Lending Valuations**

We have previously drawn attention to the European Central Bank's Newsletter which highlighted problems it found with the application of Market Value during the on-site inspections of the commercial real estate loan books of major lenders. While the lenders inspected were obviously all headquartered in the Eurozone, many of the loans were secured against CRE in other countries, including the UK, USA and Canada, and valued by local valuers.

The ECB's project has been continuing and Chris has remained involved. During the past year, the focus of the inspections has been on "bullet" or interest only loans. The impact of interest rate increases during 2022 and 2023 on both costs and values has proved problematic for many lenders. The ECB has recently issued a further Newsletter identifying best practices for lenders when granting bullet loans, which includes what valuations need to be commissioned and when. This should also be of interest to valuers who provide valuations of development property to lenders wherever they are based .

The ECB newsletters referred to can be viewed via the following links:

[Commercial real estate valuations: insights from on-site inspections](#)

[Good practices for CRE bullet loan lenders](#)

## **Be Prudent about Prudence**

Staying with the subject of valuations for bank lending, many valuers will be aware of the debate around what is meant by the requirement in the Basel Framework introduced in 2017 for valuations of real estate collateral to be based on prudently conservative valuation criteria. The Basel Framework sets criteria agreed between the major world economies for the regulation of banks but exactly how those criteria are applied is a matter for each jurisdiction. The EU

regulator, the EBA, has now included the term “prudently conservative valuation criteria” in the revised Capital Requirements Regulations (CRR) that became effective from January 2025. This replaces the previous requirement for the value of real estate collateral to be at market value or, in a few states with “rigorous criteria” for its assessment, mortgage lending value. This has led some to argue that a different type of valuation is now required.

From our experience this is not the view of the majority of either banking or valuation regulators. The relevant Article in the new CRR states that the value of the collateral cannot exceed the market value so that figure still has to be determined. The requirements for the value to be determined and reviewed by an independent valuer remain unchanged from the previous regulations. The revised regulation provides that the lender may need to reduce this value when determining their capital adequacy, alongside all the other provisions in the regulations, all of which emphasise the need for a prudent approach. The independent valuer is not expected to be an expert on loan classification, estimating the probable loss given default or calculating the bank's capital adequacy. Even if they are knowledgeable of the overall CRR requirements, to attempt to stray beyond providing the market value on the specified date and identifying any risks to that value from known or expected future events would compromise the valuer's independence from the lender. Our involvement with the ECB's inspections indicates that an independently determined market value remains the starting point for their examination of the collateral before considering whether or how the bank should have adjusted this.

## **Valuation Standards – the gift that keeps giving**

The IVSC is intending to maintain its three yearly cycle of updating the IVS by releasing a consultation draft of proposed changes to the IVS at the end of January. The details are still under wraps but we can expect to see more emphasis on sustainability and the use of AI. We also understand that changes being considered to the existing quality control requirements in IVS 100. There will be a consultation period of three months, with the intention of producing a final version in early 2027, with an effective date in January 2028.

Changes to the IVS may, of course, have implications for the standards issued by professional bodies that use the IVS as the basis for their own standards, for example RICS. While many valuers may only follow standards issued by their own professional body or regulator rather than the IVS directly, it is very important that they make themselves aware of and engage with any changes proposed in the IVS. If they see problems with any of the proposals it is better to raise them directly with the IVSC to ensure their voice is heard. If they wait until a consequential change is made in their local professional standards it becomes more difficult to change.

## **IOSCO**

Another global regulator in the financial markets has recently expressed concerns about the quality of valuations, this time those provided in company financial statements. IOSCO, a body which coordinates the securities regulators in most of the major world economies, has identified a number of problems commonly found by its member organisations. These include management having limited understanding of the valuation techniques used, using valuation inputs that are neither observable nor supportable and not providing disclosures in sufficient detail, particularly for assets or liabilities that are measured on a recurring basis that rely on significant unobservable inputs.

We have to say that IOSCO's findings are no surprise. The global body for national audit regulators, IFIAR, has had the auditing of fair value estimates at the top of the list of reasons for audits being referred since it first started publishing such data some fifteen years ago. We have also done work for financial regulators where not only were the valuations provided claimed to be compliant with the IVS when they obviously were not but this was not picked up by the reporting entity's own auditors either.

IOSCO has a collaboration agreement with the IVSC and has identified the need to improve the coordination and application of the IVS in financial reporting. We understand the IVSC is responding by establishing a Financial Reporting Project Group, to help inform valuers, financial statement preparers, audit committees, auditors and regulators about the quality and consistency of valuations. We are pleased to note that the intention is not to alter the existing IVS but to produce enhanced guidance and clarity for valuations and strengthening alignment between the IVS and International Financial Reporting Standards.

## **RICS compliance**

Ever since the introduction of the RICS Registered Firms and RICS Registered Valuer requirements some fifteen years ago, RICS firms undertaking valuations have been subject to audits of a sample of their valuation files to review their compliance with RICS rules and standards. While we know that most firms find these occasional inspections helpful in ensuring that their processes and documentation are up to date, they are infrequent and can obviously only look at a small sample of a firm's work. The onus of ensuring that the firm is compliant with the latest RICS requirements remains firmly with the firm.

Following recommendations that RICS should strengthen oversight of compliance in the 2021 Independent Review of Investment Valuations, the Standards and Regulation Board (SRB) has set up the Valuation Assurance Committee (VAC). Like the SRB the VAC has an independent chair and a majority of members with experience of compliance in other professions. It is recognised that while many larger firms have systems in place to monitor compliance and quality control, something that professional indemnity insurers are increasingly interested in, this is more of a challenge for smaller firms and sole practitioners. RICS has appointed Chris to work with the VAC in taking forward one of the Independent Review's key recommendations aimed at improving compliance oversight and supporting firms in meeting RICS

requirements. This work will include practical guidance to help firms of all sizes monitor compliance throughout the valuation process, from acceptance of an instruction through to its delivery.

We expect to be able to provide an update on this in the New Year.

## Please Get in Touch

**We help firms and organisations design and implement valuation processes and procedures to help them maximise quality and minimise risk. If you would like to discuss how we might be able to help you please do not hesitate to contact us, either via our website or simply by replying to this email. You can also follow us on Twitter or LinkedIn, and follow our Blog on [www.valuology.org](http://www.valuology.org).**



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