



Putting Valuation Principles into Practice



Professional Insight

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Valuology is a consulting firm helping organisations around the world adopt and apply the IVS in their work. We spoke to founders, Marianne Tissier and Chris Thorne – who between them have more than 35 years' experience in valuation and international standard setting – to find out more about the types of organisations they are working with, and the specific challenges they are helping those organisations overcome.

Can you tell us the background to Valuology and the services it provides?

Back in 2015 we had between us over 35 years of fairly unique experience, not only of valuation standards and valuation standard setting, but also of how the profession is organised around the world. It seemed a waste not to utilise that experience. We knew the IVSC was often asked if it could help organisations wanting to adopt the standards on how they could be implemented and enforced, but this was outside the IVSC's core remit as a standard setter. We established Valuology to provide support to any organisation wishing to improve its valuation processes and align them with the principles issued by the IVSC, whether that be for conducting valuations in accordance with the IVS or for monitoring and educating professional valuers in line with the IVSC's Professional Membership Obligations. In

our first four years of operation, our main areas of activity have been providing compliance and risk management assistance to valuation firms; advising client-side organisations and regulators on policies for commissioning valuations to meet their objectives; and providing support to organisations seeking to develop the profession in new areas or markets.



Valuology

You mentioned that you had done some work for client-side organisations and regulators. Are you able to give examples?

Last year, Chris was appointed to assist the Government of Georgia on the development of a new law to regulate valuations and valuers as part of a USAID funded project 'Governing for Growth' (G4G) managed by Deloitte. The government has been pursuing policies to strengthen the Georgian financial markets and attract inward investment and had recognised the need to create a distinct valuation profession operating to internationally recognised standards as an important component of an orderly market.

Chris met with various government and private sector organisations with an interest in valuation in order to understand the problems that a new

law would need to address, and solutions that would be practical and achievable in the Georgian environment. He then produced a detailed recommendations report, including an outline of a proposed new law. Further discussions then took place to fine tune the proposed new law to reflect the overall Georgian legal framework and decisions on how roles that had been identified would be divided between the government and private sector. The new law is due to be approved before the end of 2019.

The new law will require all valuations for designated purposes to be undertaken by Certified Valuers. Valuers will be certified by approved professional bodies who will be responsible for educating, monitoring and disciplining individuals based on IVSC guidelines. Valuations will also have to be undertaken in accordance with the IVS, with the law including a process for review and adoption into Georgian law.

An issue which soon became apparent was that some of the professional bodies which exist in Georgia are small and not all of them currently have the resources or operational capacity to carry out the role required under the new law, or for example under the IVSC Professional Membership Obligations. There will need to be a transitional period to allow an organisation to emerge with the capacity to fulfil this role but the legal requirement for Certification should be a powerful incentive to drive this. We have also provided advice on how the government and an emerging professional body can phase in compliance with the IVSC's specifications for professional membership and guidelines for the structure and governance of professional bodies.

Another recent project has been to advise a Sovereign Wealth Fund with over US\$500 bn of assets on a new policy for valuing its real estate portfolio. While valuations it had previously commissioned had been provided in accordance with the IVS by reputable firms, they had experienced inconsistencies between the approaches and assumptions being adopted for some of its more unusual and harder to value assets. They were concerned whether these values were appropriate as a basis for determining Assets Under Management (AUM) for their funds. We drafted a policy to help the fund managers decide when a valuation would be sufficiently reliable for inclusion in AUM and guidance for the independent valuers they commission on the application of key principles in the IVS to the types of unusual property that had proved challenging in past.

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Are there any lessons from your risk management work that can be passed on to other valuation firms?

Professional valuers face two interrelated areas of risk. The first is ensuring that they follow the appropriate professional and technical standards when they conduct a valuation. Failure to do so can risk sanction by either a professional body to which they belong or, in some cases, a statutory regulator. The second is the commercial risk that arises from claims because they have got a valuation wrong, either because of an error in their process or from drawing the wrong conclusion from the available data.

While adhering to professional standards provides a framework under which commercial risk is reduced, it cannot eliminate it altogether. Firms need to be vigilant and ensure that their valuation teams are properly trained, that their procedures and standard documents are up to date and that they have systems in place that ensure that valuations and reports are checked before being issued to the client. It is also important to have periodic checks, or audits, to make sure that the proper process is being followed. Most firms we work with understand this and the benefit from having independent input into their processes and oversight of how they are operated.

Can you elaborate on the work you do to support the development of the valuation profession?

It is no secret that the valuation profession is at very different stages of development throughout the world. During our years at the IVSC we could see an overriding need to increase the capacity of many of the IVSC member organisations and to support those organisations who couldn't meet the criteria to become a valuation professional organisation member. IVSC sets standards for undertaking valuation assignments



and uniform criteria for the credentials of a professional valuer but the setter of such targets cannot also get involved in every detail of how these can be implemented or achieved in individual jurisdictions and markets.

The biggest problem for many developing professional organisations is having sufficient financial resources to establish themselves sufficiently to attract a membership base that will be self-sustaining in the long term. This is certainly a challenge that we are becoming more aware of, and one that we are helping a number of organisations overcome through our knowledge of the IVSC and its members. For example, we are working with organisations in two countries – one in Africa and one in Asia – to develop a funding proposal that can be put either to the government or to one of the international funding agencies seeking financial support to develop the profession, including the development of standards.

In many countries the profession is facing questions about ethics, professionalism, the adequacy of its standards, and its performance in relation to those standards. As a result, we are

seeing an increase in the number of organisations seeking guidance on things like constitutional arrangements, membership requirements, ethical and professional standards, as they strive to get the right structures and process in place to allay market concerns.

With your IVSC background I'm sure you support the use of the IVSs in your work? Can you give any examples of how successful this has been?

The concept of a common international standard is powerful, especially in emerging economies, so while we obviously support the IVS, the principle of adopting them is not a hard sell! A problem we do sometimes find is managing expectations of what the IVS provide. Some believe that they are not just a common code for undertaking and reporting valuation but a comprehensive valuer education package which will provide a "one stop shop" to ensuring reliable valuation. We have seen examples of people boasting a "valuation credential" after they have done a few days training on the IVS. We have to explain that learning a 120-page book does not make them a professional valuer in the eyes of the IVSC!

What we do find people need help with is illustrating how some of the principles in the IVS apply in their particular markets, where understanding the problem that a particular clause in the standard is designed to address is invaluable in producing examples that are relevant to that market. This is particularly the

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case where there has been translation from English.

Translations have the potential to produce other problems, too. Where we have seen translations of the IVS back into English from another language it is surprising how often we see the sense of the original has been completely changed. By discussing with the translators what the IVS means rather than what a literal word by word translation might suggest it helps organisations develop standards that make sense to their members and are operable in their markets.

You mentioned that sometimes you find unrealistic expectations of what the IVS can provide. Do have any ideas on how this can be managed?

A problem that has been around as long as the IVSC has been in existence is determining what are "standards". The word can be used generically in any profession to encompass everything from required levels of education, experience and professional behaviour of the individual through to the specification of an acceptable service or product. Unfortunately, in spite of its past efforts a significant number of those with whom the valuation profession interacts do not distinguish between these different aspects, leading to the expectation that simply adopting the IVS will provide a solution to all of them.

This is a challenge that the IVSC must not lose sight of. We do not see people believing that learning about financial reporting standards makes them a qualified accountant so the message about the scope and purpose of the IVS needs to be consistently reinforced. The

objective should be to provide clarity and consistency for valuation users, i.e. those who commission or rely on valuations, not to tell valuers, or even non valuers, how to do valuations.

This is the reason why the IVS has previously avoided including detailed methodology. A user needs to understand what a DCF is, not the detail of how to produce one. While IVSC may have a role in providing a platform for technical discussion between valuers about different methods and their merits, unless this is clearly separated from the IVS there is a risk that the relevance to valuation users of the IVS and their broad global applicability may be compromised.

What do you see as the opportunities and challenges for the valuation profession?

It is clear that as more and more countries look to strengthen their financial regulation that there will be more focus on valuations and who provides them. In the few places where the profession is well structured and developed governments will have little cause to intervene, but elsewhere we can expect to see increasing statutory regulation.

Regulation obviously produces challenges but also significant opportunities. Good regulation elevates the status of a profession, so existing professionals should seize the opportunity to constructively engage with proposed new regulation rather than resist change. It is much better for governments and regulators to see current professionals as part of the solution rather than the problem.

Another thing which is changing fast is development of ever more extensive and

detailed market data and how this is accessed. Over the last twenty years there have been huge developments in how this is collated, integrated and distributed via the web, and this shows no sign of slowing down. This means that valuers are no longer the sole gatekeepers to deal information but now have to distinguish themselves from the competition by focusing on the appropriate analysis and interpretation of that data. This requires understanding the bigger picture ranging from what factors drove particular deals through to the impact of micro and macro-economic trends. An ability to crunch the numbers by designing or operating ever more sophisticated models is not enough. The challenge is to interpret all this data in context and that is where the opportunities for the profession lie.



Marianne Tissier

Prior to joining the IVSC as Executive Director in 2000, Marianne had spent seventeen years working for RICS, including being responsible for establishing its European Department in the early 1990s and then heading up its International Department. During the fifteen years she spent at the IVSC she saw the organisation grow significantly from an informal association of real estate professional bodies into an independent standard setting body for the valuation of most types of asset.



Chris Thorne

Chris spent over 35 years in private practice as a commercial real estate valuer, culminating in the role of Technical Head of Valuation for BNP Paribas Real Estate in the UK. In the early 1990s he became a volunteer member of the RICS Valuation Standards Board, and for nearly seventeen years fulfilled a range of different roles on different RICS Boards and Working Groups, including eight years as Chairman of the Red Book Editorial Board. Between 2010 and 2015 he was Technical Director of the IVSC.



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