



A response to the questions posed by the European Banking Authority
concerning collateral valuation for immovable and movable property
(Draft Guidelines on management of non-performing and forborne exposures)

**A response by RICS
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Background

RICS is the world's leading professional body on all aspects of property, construction and land use. An independent, public interest organisation, we regulate, represent and promote over 125,000 individually qualified professionals in 140 countries worldwide. RICS promotes and enforces the highest professional qualifications and standards in the valuation, development and management of land, real estate (including construction and infrastructure), business and machinery assets. Our name promises the consistent delivery of standards – bringing confidence to the markets we serve.

We believe that standards underpin effective markets. With up to seventy percent of the world's wealth bound up in land and real estate, our sector is vital to economic development, helping to underpin stable, sustainable investment and growth around the globe. We have a strong interest in promoting more transparent, consistent and high-quality valuations that span all asset classes and both strengthen market discipline and contribute to financial stability.

RICS welcomes the opportunity to contribute to the public consultation initiated by the European Banking Authority (EBA) **on the management of non-performing and forborne exposures**.

We support the best practice guidance set forth in the draft EBA document on collateral valuation for immovable and movable property. All RICS valuers are required to comply with the RICS Valuation Professional Standards (the 'Red Book') which guarantees consistent valuation approaches and reporting worldwide in line with the International Valuation Standards (IVS). Moreover, RICS valuers meet the same professional, ethical and business standards irrespective of their nationality or place of residence based on the principle of adequate consistency.

For clients and users of RICS valuations, these professional standards mean:

- Consistency in approach and reported value;
- Credible and consistent valuation opinions by suitably trained valuers with appropriate qualifications and adequate experience for the task;
- Independence, objectivity and transparency in the valuer's approach;
- Clarity in the reporting and disclosures to be made.

We trust that the EBA will take our opinions into consideration. We stay at your disposal for more information and are happy to provide further support if required.

Valuation standards

We welcome the mention of RICS standards in footnote 41 on page 59 of the draft guidelines, however we would like this footnote to be amended as follows:

- "Institute" to be replaced with "**Institution**" as RICS stands for the "Royal Institution of Chartered Surveyors";
- the title of the "**RICS Valuation - Global Standards 2017 (Red Book)**" mentioned explicitly, such as the reference to TEGoVA's "Blue Book";
- Include the reference to "**International Valuation Standards**" in the interest of consistency with Recital 26 of the EU Mortgage Credit Directive (MCD) which also mentions international standards "developed by the International Valuation Standards Committee".

Valuation consistency and reliability can only be realised if there is consistency in the valuation process, and that in turn, can only be achieved if recognised standards and related guidance are being used. Just as in the financial reporting world – with the development of globally recognised standards in the form of IFRS, which are extensively adopted across the EU – there have been major advances in the valuation reporting world. The emergence of a set of international valuation standards

(IVS) is now increasingly being taken up by individual jurisdictions, often with a commitment to alignment or convergence between existing jurisdictional standards and those more recent international standards. It should be emphasised that standards do not displace the expertise and judgement of the valuer in individual cases, which remains paramount, but provide a recognised framework within which the valuation process takes place.

The EBA needs to be seen to recommend the best international standards in valuation. These are IVS's – created by an independent organisation whose only purpose is to create independent standards for valuers (public interest) and not by a membership organisation for their members. RICS has long been a supporter of the development of such universal standards and the RICS Red Book fully incorporates the IVS and provides a practical implementation framework for the consistent interpretation and application of IVS. The Red Book is issued by RICS as part of our commitment to promote and support the highest of standards in valuation delivery.

We would also like to emphasise that IVS and RICS Red Book standards apply across all expressions of market valuation for all asset classes, including all types of immovable and movable property collateral referred to in the draft guidance.

Finally, we would also like to explore the possibility of referencing the need for consistent property measurement standards. We are aware that the measurement data that forms a key metric of valuations is currently not standardised. Research has shown that, depending on the standard used, the 'size' of a property can vary up to 24% which can severely undermine the objective of internationally consistent valuation and financial reporting standards. **International Property Measurement Standard (IPMS)**, developed by a group of more than 80 professional and not-for-profit organisations from around the world, will ensure that property assets are measured in a consistent way, creating a more transparent marketplace, greater public trust, stronger investor confidence, and increased market stability.

Appointment of valuers

In order to ensure complete independence, RICS recommends that the appointment of the Appraiser according to criteria set out in Section 9.1.4, pp. 56-7 should avoid that the Appraiser is the same person as the one originally valued the asset to support the original loan decision.

Threshold for property-specific valuations

RICS has no objection to the proposed threshold of €300,000. In our understanding the threshold is consistent with European Central Bank (ECB) Guidance to banks on non-performing loans published in March 2017, which implies that indexed valuations “may be used to update the valuation for non-performing loans of less than 300,000 euro in gross value” (Section 7.2.3, page 88, “Individual versus indexed valuations”)

Valuing collateral that is land or long-term vacant real estate

We suggest the draft guidance to include an additional note on the valuation collateral that is land or long-term vacant real estate. We believe that particular care should be taken in the case of valuing collateral that is land or long-term vacant real estate where holding costs (management, property tax, etc.) can convert what is ostensibly an asset to a liability. Banks should clearly identify these types of collateral within their loan books so that the external supervisor can understand the weight of

exposure the bank has to this type of asset class that is more illiquid and more susceptible to differing views on value.

NPE impairment and write-off

We will welcome further clarifications on paragraph 185, point a): "...following this assessment, an exposure or part of an exposure is deemed as unrecoverable, it should lead to a partial or full written-off the exposure." We understand this point aims to mean the "...full write-off of the exposure".

