



A response to the questions posed by the European Banking Authority
concerning loan origination and monitoring
(Draft Guidelines on loan origination and monitoring)

**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 loan origination and monitoring**.

We support the best practice guidance set forth in the draft EBA document on valuation of 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.

Requirements for valuation at the point of origination

A - The requirement under paragraph 191 is that a valuation is undertaken at the commencement of the loan (whether in respect of immovable or movable property) and that it is carried out "accurately". For the purpose to complement what "accurately" means, paragraph 191 is to be read in conjunction with paragraphs 193 and 222, so accurately means competently "in accordance with applicable international, European and national standards".

B - We welcome the mention of RICS standards in paragraph 193 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";
- 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.

Immovable property collateral

A - We would like to draw the attention to paragraph 200c), which may not be easy to satisfy in full for a "desk top" or "drive by" valuation, and so would need some recognised limitation in those circumstances.

B - As regards the wording of in paragraph 200 e) , it is worth mentioning that on the whole valuers would not expect to make legal enquiries but to rely on information supplied by the (separate) legal advisers.

Movable property collateral

A - We understand that under the requirements for valuation at the point of origination the draft guidelines seem to imply **that statistical model-based valuation is only accepted for movable property collateral**. If this is the case, we would suggest a more explicit reference aiming to a greater clarity of the text.

Environmental factors and green lending

A- We welcome the fact that the draft guidelines acknowledge the growing importance of environmental, factors and green lending. In particular, we would highlight the interest to refer to existing EU initiatives which will enable that the proposed requirements are future proof.

B- Along this line, we would suggest that in paragraph 49 a direct reference is made to the [EU taxonomy for financial activities](#). This project run by the European Commission develops processes and criteria to screen and identify environmentally-sustainable activities in the context of finance.

C- Also reference to other relevant initiatives could be made, for instance:

- to [Eemap](#) (EU funded project under Horizon 2020 on the creation of a standardised energy efficient mortgage)
- to the RICS guidance note on [Sustainability and commercial property valuation](#).