



by electronic mail: markt-mortgage-consultation@cec.eu.int

29 November 2005

Dear Sir,

COM(2005) 327 - GREEN PAPER *Mortgage Credit in the EU*

The IVSC welcomes the opportunity to respond to the request for comment on the Green Paper on Mortgage Credit in the EU.

The IVSC

The IVSC was set up in 1981 by the valuation profession. It incorporated as a not-for-profit organisation in the US in 2004 with its operational headquarters in London. Over 50 countries, including the majority of EU member states, are represented on the IVSC through national professional valuation institutes. The IVSC has published International Valuation Standards (IVS) since 1985. The most recent edition was published in February 2005 and is available to view free of charge on the IVSC website – www.ivsc.org

IVSC comments and recommendations

The IVSC restricts its comments to questions following paragraphs 37 and 38 in the Green Paper:

Property Valuation

What are the merits of a single EU standard, for both valuation processes and valuers?

- *What are the merits of Commission action to ensure mutual recognition of national valuation standards?*

The IVSC agrees with the statement in the Green Paper (paragraph 37) *that lenders, consumers and investors must have full confidence in the qualifications of the valuer, the valuation process and the resulting figure*. The IVSC also agrees with the statement in the study on the costs and benefits of further integration of the EU mortgage credit market, carried out on behalf of the Commission by London Economics that *nationally defined*

cont./...

29 November 2005

Page 2

valuation standards are historically motivated and differences between such standards bear no economic justification. Common standards would facilitate cross-border trade as they would diminish incumbents' advantages due to their familiarity with a particular valuation system.

The IVSC strongly recommends that the European Union adopt the International Valuation Standards as the basis for improving the transparency of the valuation process within Europe. To do so would be consistent with the approach taken by the Lisbon Council in 2000 and the Financial Services Action Plan regarding the adoption within the EU of international standards in other areas.

It is an IVSC objective that its standards should support those being developed by other international organisations – for example,

the recommendations issued by the Basel Committee on Banking Supervision and in particular Basel II that is currently being implemented in the EU. Guidance published by the Basel Committee for national supervisors and banks planning the transition to Basel II calls for the adoption of “internationally accepted asset valuations rules which are consistent, realistic and prudent”

International Financial Reporting Standards promulgated by the International Accounting Standards Board (IASB). The IVSC works closely with the IASB to ensure that wherever assets are to be measured for financial reporting it is done so on a basis that is consistent and comparable. The IVSC presented an education session on valuation to the September 2005 meeting of the IASB.

The IVSC sees great similarity between the debate over the need for common valuation standards for Europe and that undertaken by the accounting profession in the mid to late 1990s. At that time there were many different financial reporting rules and differing interpretations based on distinct traditions within the EU. Such a accounting diversity was declared to be one of the major obstacles to achieving deep and liquid European capital and

cont./...

financial markets and to obtaining the full benefits of the Single Market in Europe. The European Commission recognized this in its 1995 Accounting Strategy and the Financial Services Action Plan. It recommended the adoption of International Financial Reporting Standards (previously known as International Accounting Standards) as representing the best opportunity to achieve both global and European harmonisation of financial reporting standards. Further the Commission stated that the prospect of this objective would be undermined by the creation of additional regional standard setting bodies.

The growing adoption of International Valuation Standards

There is already strong pressure for the adoption of IVS within Europe and in other countries in the world. This has been driven by the general process of globalization but more specifically by the accountancy world and the international investment community. The standardisation of accounting methods, for example, is of limited use if the figures that go into those accounts are produced on different bases and come up with very different answers for a broadly similar asset.

- within the EU

- The use of International Valuation Standards is recommended by the European Public Real Estate Association (EPRA) in its Best Practice Guidelines.
- The European Association for Investors in Non-listed Real Estate Vehicles (INREV) has published an annual report and financial statements that provide a comprehensive example of best practice reporting in the industry. This report calls for valuations to be performed in accordance with the guidance issued by the IVSC. INREV has also published a White Paper proposing a framework within which a secondary market in non-listed real estate fund across Europe could thrive. This paper notes the differences in property valuation throughout the EU and calls for standardized property valuations.
- The 2005 International Valuation Standards have been translated into Finnish, Italian, Polish, Portuguese, Slovakian, Slovenian, and Spanish.
- In the UK and Ireland, the RICS has a policy of convergence of its standards with the IVS and has already incorporated much of the IVS within its set of standards known as the Red Book.

cont./...

- and more widely throughout the world

- IVS 2005 translated into Romanian and adopted as Romanian national valuation standards
- IVS 2005 translated into Turkish. Capital Markets Board preparing to publish as part of mortgage law and to make radical changes in many other laws such as audit and financial reporting with reference to IVS 2005.
- IVS 2005 translated into Russia. IVSC meeting with Ministry of Trade and Economic Development to discuss adoption of IVS as Russian national standards.
- IVS 2005 translated into Arabic as part of USAID funded project to develop mortgage markets in Egypt.
- IVS 2005 to be adopted as national valuation standards in Australia and New Zealand.
- The Appraisal Foundation in the USA is committing to a project with the IVSC to reconcile differences between the Uniform Standards of Professional Appraisal Practice (USPAP) and IVS.

Conclusions

IVSC would urge the Commission to take this opportunity to promote use of IVS within Europe rather than to seek to develop an additional layer of European valuation standards. With the growing acceptance of the IVS for valuations carried out throughout the EU for other purposes such as financial reporting, European standards would have limited applicability.

The IVSC would also recommend that the Commission does not seek to promulgate the continued existence of differing valuation practices throughout the EU. The interests of participants in the EU mortgage credit market cannot be best served by having to interpret, or decipher, valuation reports prepared in accordance with the differing local conventions of the EU member states. The co-existence of different valuation reporting frameworks is both confusing and costly.

29 November 2005

Page 5

The IVSC appreciates the opportunity to express our views on the Green Paper and would be pleased to discuss any aspects of its response with the Commission

Yours faithfully,

A handwritten signature in black ink, reading "Joseph J Vella". The signature is written in a cursive style with a long horizontal stroke extending to the left from the start of the name.

Joseph J Vella

Chairman, International Valuation Standards Committee

Email: ivsc@ivsc.org